

School of Accounting

**The Impact of Chinese Auditors' Values on their Ethical
Decision-Making in China**

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Doctor of Philosophy
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DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

Signature:

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Abstract

This study involves a first attempt to identify Chinese auditors' values and examines their effects on ethical ideologies and ethical judgments and intentions. A survey methodology is used and the survey instrument includes a self-administered questionnaire and a short auditing ethical case. A sample of Chinese CPAs with auditing experience was drawn from accounting firms located in Shenzhen, Hangzhou, Beijing, and Kunming cities during 2006-7. Three hundred and twenty-five useable responses were received. The theoretical framework for this study is based on Forsyth's (1980) model of ethical ideologies. This study identifies Chinese auditors' cultural values as (1) Chinese traditional cultural values, (2) interpersonal relationships (*guanxi*), and (3) attitudes towards money. This study posits that Chinese auditors' cultural values will impact on their ethical ideologies and that their ethical judgments and intentions are, in turn influenced by the ideologies they prefer. In this study, Chinese auditors' ethical judgments and intentions are examined using a well understood ethical dilemma in auditing, specifically whether an auditor should accept a client's suggestion to inappropriately alter the financial position or to adhere to accounting and professional standards.

Four research questions are proposed in this study:

1. What national cultural values best describe Chinese auditors?
2. How do Chinese cultural values impact ethical ideologies (i.e., Idealism and Relativism) as they apply to practicing auditors?
3. Do identifiable ethical ideologies, adopted by auditors, influence the decision-making process in issues relating to audit independence? In particular, ethical judgments and intentions.
4. How do certain contextual matters, namely firms' ethical culture and personal factors influence ethical ideologies?

Chinese auditors' beliefs about their national cultural values are measured using the Chinese Cultural Values (CVS) used in the Chinese Culture Connection (1987). Chinese

auditors' *guanxi* orientations are measured using a 12 item scale based on Ang and Leong's (2000) 9 items favour-seeking *guanxi* scale and three items constructed by the author concerned with rent-seeking *guanxi* orientations. Chinese auditors' attitudes towards money are measured using Tang and Chiu's (2003) the *Love of Money Scale* (LMOS) scale. Chinese auditors' beliefs about their firms' ethical cultures are measured using Hunt et al.'s (1989) corporate ethical values scale. Chinese auditors' ethical ideologies are determined by using Forsyth's (1980) ethical position questionnaire (EPQ). Finally, Chinese auditors' ethical judgments and intentions are measured using an auditing case study. The major statistical methods used in this study are descriptive, t-tests, correlations, and regression analysis.

The following significant results are presented in this study:

1. Chinese auditors display strong views about their traditional cultural values in four of the five national dimensions, the exception being Confucian Work dynamism past orientation. Young auditors appear less concerned with Integration issues compared to their older counterparts. Again, younger and less experienced auditors display less interest in the Human-heartedness dimension compared to their older counterparts. Auditors with Masters Degrees identify less with Confucian Work dynamism future orientations when compared to those who hold a Bachelors degree. Attitudes towards the Confucian Work dynamism dimension future orientation are found to be positively associated with Idealism, however attitudes relating to Confucian Work dynamism dimension past orientation component are found to be negatively associated with Idealism. Further, attitudes relating to Confucian Work dynamism dimension past orientation component are found to be negatively associated with Relativism.
2. Chinese auditors display significantly higher mean scores in both favour-seeking and rent-seeking *guanxi* orientations. Young and less experienced auditors are more likely to use rent-seeking *guanxi* than older and experienced auditors. Chinese auditors' rent-seeking *guanxi* orientations are found to be negatively associated with Idealism and both favour-seeking and rent-seeking *guanxi*

orientations are found to be positively associated with Relativism.

3. Chinese auditors' attitudes towards money are high in two of the four dimensions relating to the love of money, namely the *importance of money* and the *desire to be rich* dimensions. Their attitudes towards money are significantly higher than for Hong Kong employees. Male auditors displayed significantly higher mean scores in the *desire to be rich* dimension than female auditors. Young auditors have significantly higher mean scores in the *success* and *motivator* dimensions compared to older auditors. Chinese auditors' beliefs about the importance of money are found to be positively associated with Relativism. Interestingly, no association with Idealism was identified in this study.
4. Chinese auditors have stronger beliefs about their firms' ethical cultures to compare the mid-point value but their beliefs are significantly lower than for American subjects. Junior and senior auditors are less likely to believe their managers display unethical behavior compared to accounting firm partners. Auditors employed in work environments where punishment systems exist are likely to disclose attitudes that are positively associated with Idealism. Alternatively, auditors employed in work environments where managers are believed to display unethical behaviour are likely to disclose attitudes that are positively associated with Relativism.
5. Chinese auditors display relatively higher ethical positions (on both Idealism and Relativism) to compare the mid-point value. Males hold stronger relativist positions than females and older auditors are more idealistic than their youthful counterparts. Auditors who hold senior positions are more likely to be relativists compared to juniors. Chinese auditors' ethical judgments are found to be positively associated with Idealism and negatively associated with Relativism. However, their ethical intentions are only found to be negatively associated with Relativism. Young auditors appear less ethical in terms of their judgments than

older auditors and less experienced auditors are less intentioned compared to experienced auditors.

This study contributes to our understanding of Chinese auditors' values and their ethical ideologies and the effects these have on their ethical judgments and intentions. It is the first research to include a wide range of ethical decision-making factors within a business context in China using qualified CPAs. It is believed that valuable insights have been gained about the various cultural factors influencing ideological processes and how these flow through to the decision making level. The study also contributes to the existing body of knowledge by providing additional evidence that ethical decision-making is a universal concept involving moral philosophies such as those suggested by Forsyth (1980) and Hunt and Vitell (1986) and applies in an auditing context in China. Moreover, this study develops a rent-seeking *guanxi* scale based on Su et al.'s (2003) classification of *guanxi* orientations and Ang and Leong's (2000) *guanxi* scale. It contributes by providing a scale to measure the extent to which business relationships involves back door deals and power dependence.

One of the significant contributions of this study is that it contributes to the construction of a meaningful measure for the *guanxi* scale which includes favour-seeking *guanxi* and specifically for the first time, rent-seeking *guanxi*. Thus a confirmatory analysis with an independent sample could be used in the future to re-test the *guanxi* scale with the two dimensions developed in this study.

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Chapter 1

Introduction to the Study

1.1 Background

Rarely a week goes by that China is not mentioned as the next great economic nation. Since the economic reforms started in 1978 by pragmatists within the Communist Party of China led by Deng Xiao Ping, the People's Republic of China (PRC) has progressed economically. It is now the largest recipient of foreign direct investment and a major economic player in the world since it joined the World Trade Organisation (WTO) in September 2001 (Narayan & Reid 2002).

Membership of the WTO highlighted for the Chinese government the need for accountability and corporate governance, specifically accounting and auditing systems that are transparent. Underpinning these systems and therefore increased accountability and good corporate governance is the role of the independent auditor. The Chinese government is now taking steps to build new business infrastructures based on accountability and corporate governance (Tai 2003). However, Deng Xiao Ping's proclamation that "to get rich is glorious"¹ in the 1990s brought a new market ethic, i.e., that the pursuit of profit is the primary goal of business (Whitcomb, Erdener & Li 1998). Chinese people now enjoy more economic freedom, but the search for maximum profits and greater wealth has introduced a threat to professional independence and integrity. Wyatt's (2005 P. 51) commented that... 'poor corporate governance, high levels of fraud, insufficient financial disclosure, and bad accounting practices'...have continued to cause investors in Chinese markets to lose a lot of

¹ Glorious means 'good' in that it is rewarding.

money and confidence in audited financial information, despite the economic policy regime change.

The biggest economic scandal in Mainland China's history, the collapse of *Guangxi (Yinchuan) Industry Co.* is an example of this threat. This scandal involved similar circumstances to those of Enron including fraudulent accounting and over-inflating profits (Dayasena 2003). In another example, the China's National Audit Office, which randomly checked 32 audit reports, found that 23 contained seriously inconsistent facts and the fabricated amounts totaling RMB7.1 billion according to Tai (2003). And also in this investigation, more than 80% of the accounting firms were involved in fabrication of financial statements (Tai 2003). Wyatt (2005) commented that the lack of confidence in the Chinese stock market was evidenced by a nearly 50% decrease in share prices over a four year period although the Chinese economy grew by 9.5 percent in 2004.

If China wants to continue to sustain its current growth and become the world's economic superpower, then establishing a sound and credible financial information infrastructure is essential. Company auditors play an important role in achieving this objective and their ethical decision-making is a crucial step in maintaining audit independence. This particular issue represents the central focus of this study.

Audit independence is embodied in statutes and professional standards in many countries. It is defined in most countries in codes of conduct and related standards. It is generally agreed that independence deals with the actual and perceived ability of accountants to act with integrity and objectivity (Windal & Corley 1980). According

to Mautz and Sharaf (1961), there are two components of independence; practitioner independence and professional independence. Practitioner independence is... ‘the real independence of the individual practitioner in the performances of his work’ (p. 204). It has to do with... ‘the ability of the individual practitioner to maintain the proper attitude in the planning of his audit program, the performance of his verification work, and the preparation of his report’ (p. 205). Professional independence is the appearance to the public of the independence of a group of professionals. The International Federation of Accountants (IFAC) and many countries generally specify two forms of independence: *Independence in Fact* and *Independence in Appearance*.

In China, there is no formal definition of audit independence in the Auditing Standards. According to the *Law of the People’s Republic of China on Certified Public Accountants* (Article 1 1993), one role of a Certified Public Accountant (CPA) is to protect the public and investors’ interests and promote the development of a sustainable economic market. The Chinese Code of Professional Conduct titled *General Standards on Professional Ethics* (GSPE) was issued by Chinese Institute of Certified Public Accountants (CICPA) in accordance with *the Law of the People’s Republic of China on Certified Public Accountants* (CPA Law) in 1993 and was revised in 1996. The *General Standard on Professional Ethics* (the Chinese Institute of Certified Public Accountants 1996) requires all CPAs to observe the principles of independence, objectivity and fair dealing in performing professional activities (Article 4) and to maintain *independence in fact* and in *appearance* (Article 5). His/her judgments must not be influenced by others, or by any circumstances and personal feelings (Article 9). They should avoid any activities which could impair audit independence (Articles 7 & 8).

The purpose of a Code of Professional Conduct is to guide and establish high professional standards and encourage ethical standards in business (Finn, Chonko & Hunt 1988). Following a series of corporate collapses, the International Federation of Accountants (IFAC) and many western countries adopted a conceptual framework approach to develop a code of professional conduct to guide accountants' services. Thus in 2003, Chinese accounting regulators also adopted *Independence in Fact* and *Independence in Appearance* concepts in the Code of Professional Conduct and issued *Practice Guidelines on General Standards of Professional Ethics* to provide detailed guidelines to assist CPAs in performing professional services.

Jakubowski et al. (2002) compared the Codes of Professional Conduct of certified/chartered accountants across eight countries and regions including Hong Kong and Taiwan. The results of their studies suggest that the rules related to independence, objectivity, and conflicts of interest are similar across these countries. However, countries like South Korea, India, Malaysia, Hong Kong, and Taiwan are less explicit and elaborate in formulating their professional codes (Jakubowski et al. 2002). China's position is similar to those of Hong Kong and Taiwan and its Code of Professional Conduct focuses on general rules. One implication of less information in the Code is that auditors can rely more on their personal values and other factors in making an ethical decision.

Research on ethical decision-making in a Chinese business context emerged recently but it has been limited. For example, Tsui and Windsor (2001) and Gul, Ng and Tong (2003) examined auditors' moral reasoning and ethical decision-making processes

based on Kohlberg's (1969) theory of cognitive moral development and Rest's (1979) defining issues test (DIT). Woodbine (2002; 2004) examined employees' moral choice in Chinese financial institutions based on Rest's (1986) theoretical four-component model and applied within an agency framework. Douglas and Wier (2005) examined the impact of Chinese managers' moral philosophies on their slack-creation behaviours based on Forsyth's (1980) ethical ideologies. However, there is little research concerned with the effects of Chinese auditors' beliefs about their national cultural values, professional environments, and their personal moral philosophies in relation to their ethical decision-making. In a review of the last twenty years literature on ethical decision-making in an auditing context, Jones, Massey and Thorne (2003) noted that... 'more research is needed to understand how the cultural and national context influences auditors' sensitivity to ethical issues' (p. 63). Thus the aim of this study is to fill in the gap and provides that knowledge into Chinese accounting/auditing literature.

1.2 Research problem

This section provides a brief outline of the theory associated with this research and identifies the issues which are considered in this study. It provides an overview of the underlying principles of morality, ethics, and values and their influences on ethical decision-making. It also includes an overview of ethical ideologies and Chinese cultural values.

1.2.1 Theoretical framework of the study

Ethical decision-making is... 'a thought process that leads to one of several possible options' (Baron 1993 p.35) and is influenced by many factors including personal

values and external influences. Personal values play a central role in ethical decision-making (Yates & Lee 1996; Hunt & Vitell 1986), meaning that an individual's value system is regarded as the foundation for judgments (Douglas & Schwartz 1999). Values are motivations of people's behaviours (Rokeach 1973) and give direction to people's lives (Smith 1977). Forsyth's (1980) ethical ideological theory suggests that individuals adopt varying strategies in decision making, depending on the degree to which they identify with relativistic and idealistic tendencies.

However, no one is born with values; cultures build and develop values as one grows (Smith 1977). Smith asserts that the process of acquiring values begins at birth because... 'we are born into cultures and societies that promote, teach, and impart their values to us' (p. 3). Thus culture is the dominant factor in establishing an individual's personality (Hsu 1949) and in influencing his/her ethical decision-making (McCrae, Costa, & Yik 1996; Roxas & Stoneback 1997). Thus Hunt and Vitell's (1986; 1993) ethical decision-making model proposes that individuals' moral philosophies are influenced by his/her national culture and work environments. Prior studies have confirmed these theories. Thus the basic theoretical framework of this study is based on Forsyth's (1980) ethical ideological theory and Hunt and Vitell's (1986; 1993) ethical decision-making model. The basic theoretical framework is shown in Figure 1 and the details of research model for this study are given in Chapter 5.

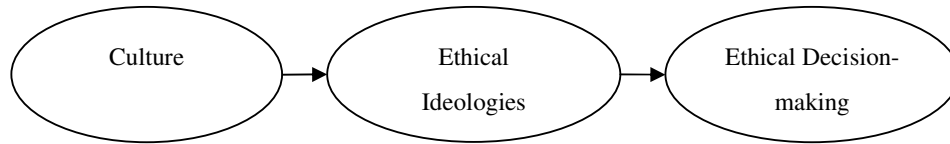


Figure 1: Theoretical Framework of the Study

This study examines Chinese auditors' ethical decision-making from two aspects, (1) ethical judgments and (2) ethical intentions. Chinese auditors' values are identified as Chinese traditional cultural values, Chinese people's interpersonal relationships (*guanxi* orientations), and their attitudes towards money. Chinese auditors' ethical ideologies include idealism and relativism two dimensions which suggested by Forsyth (1980).

1.2.2 Values and their influences on ethical decision-making

Value is defined as... 'any object or quality desirable as a means or as an end in itself' according to *Macquarie Australia's National Dictionary* (1982 p. 126). It is different to morality and ethics. Morality or ethics are standards or principles which guide actions (Gert 1998), whereas values are motivations to action (Rokeach 1973). Ethical principles are guidelines for people's decision-making, whereas knowing a person's values provides a reasonable idea of the kind of decisions or actions that he/she would make or take. Ethics represents a person's judgments about right or wrong whereas value is a person's measure of importance (Shockley-Zalabak 1988). A norm is consensual and external to the person whereas value is more personal and internal and a guide to conduct in a variety of ways (Rokeach 1973). Thus value has a strong motivational component and influences a person's behaviours (Rokeach 1973). It is... 'what makes something desirable or undesirable' (Shockley-Zalabak

1988 p. 316) and a broad tendency to prefer certain states of affairs over others (Hofstede 1980). It serves...‘as standards that guide ongoing activities’ and ‘as general plans for conflict resolution and decision making’ (Rokeach 1973 p. 12 & 14). It also serves...‘as guiding principles in the life of a person or other social entity’ (Schwartz 1994 p. 21). It is regarded as...‘part of a complex of attitude sets that influence our behaviours’ (Shockley-Zalabak 1988 p. 317). Smith (1977) asserts that...‘people act according to their values and their values give direction to their lives’ (p.10).

The aim of this study is to investigate the factors that influence Chinese auditors’ ethical decision-making. It is concerned with Chinese auditors’ value judgments and how these judgments influence the way they apply ethical principles or norms to solve ethical problems in the conduct of their professional work.

1.2.3 Ethical ideologies and their places in an ethical decision-making

Ethicists suggest that a decision situation that has ethical content will involve the process of deontological and teleological evaluations. For example, Hunt and Vitell’s (1986, 1993) general theory of marketing ethics proposes that an individual’s ethical judgments are a function of his/her deontological and teleological moral philosophies. However, prior studies indicate that it is difficult for individuals to apply deontological and teleological theories in their decision-making strategies. Barnett, Bass and Brown (1994) concluded that...‘few individuals are strict teleogists or deontologists’ (p. 471) and that it is difficult for them to apply...‘traditional ethical theory to practical ethical dilemmas in business situations’. (p. 471) Similarly, Reidenbach and Robin (1988) found that individuals...‘do not use clearly delineated

concepts of ethical philosophy in making ethical judgments of marketing activities' (p. 878). Their studies also suggest that judgments... 'can be measured using the concepts derived from the different moral philosophies including relativism, egoism and justice theories' (p. 878). Mayo and Marks' (1990) study also identified problems measuring some constructs including deontological and teleological elements. Hunt (1990) asserts that deontological and teleological moral philosophies should be viewed as processes rather than constructs.

Forsyth (1980; 1992) claims that the concepts explaining moral philosophies are relativism and idealism. His personal moral philosophy model suggests that individuals who demonstrate different perspectives in relation to relativism and idealism diverged when making moral judgments (see Forsyth 1978; 1981; 1984; 1985). Forsyth's (1980) ethical ideology theory was derived from teleological and deontological theories. He suggests that an individual varies his/her moral beliefs and attitudes, that is either he/she makes judgments based on universal moral rules or rejects universal moral principles in favour of some relativistic position. Thus Forsyth classified an individual's ethical ideologies along two dimensions: either idealism or relativism. Idealism is concerned with securing the welfare of others and avoiding negative consequences which may harm others (Forsyth 1992) whereas relativism feels that moral actions depend upon given situations. Thus an idealist person makes an ethical judgment based on universal moral rules and the principle of no harm to others, whereas a relativist person makes an ethical judgment based on personal feelings and situations (Forsyth 1980).

Barnett et al. (1994) claim that deontology is generally an idealistic philosophy and

that teleology is a pragmatic one. Vitell, Rallapalli and Singhapakdi's (1993) study showed that deontological norms positively correlated with idealism and negatively correlated with relativism. Barnett et al.'s (1998) study suggests that ethical ideology was useful for testing theoretical models of business ethics. Park (2005) claims that... 'idealism and relativism have been found to be strong determinants of ethical judgments and behaviours in business' (p. 82).

Forsyth's studies confirm that individuals' ethical positions impact their ethical judgments (see Forsyth 1978; 1981; 1984; 1985). Prior studies also confirmed Forsyth's theory. These studies found that idealism is positively associated with ethical judgments but relativism is negatively associated with ethical judgments or has no effect (see Chapter 4).

Forsyth's (1980) ethical ideology has been widely used to compare the effects of national cultural differences on an individual's ethical ideologies in business context studies. Prior studies suggest that culture affects individuals' ethical ideologies but there is no consistent evidence. For example, Singhapakdi, Vitell and Leelakulthanit (1994), Attia, Shankarmahesh and Singhapakdi (1999), and Singhapakdi, Higgs-Kleyn and Rao (1999) suggest that non-American subjects are higher on idealism than American subjects while Davis et al. (1998) posit that American subjects tend to be higher on idealism than non-American subjects. Some studies suggest that there are no differences between American and non-American subjects in respect of relativist (Attia et al. 1999) and idealist (Douglas & Wier 2005) moral philosophies. However, Singhapakdi et al. (1994) and Attia et al. (1999) provide evidence that subjects from Asian cultural backgrounds are high on relativism and

idealism. Forsyth defines people, who demonstrate high levels of both idealism and relativism as situationists. (1980). The aforementioned studies indicate that Asian subjects are more likely to be situationists and that their ethical decision-making is strongly influenced by their circumstances.

Douglas and Wier (2005) found that Chinese managers were high on the idealism and relativism dimensions than American managers. Their study suggests that Chinese managers' ethical positions are situationists according to Forsyth's ethical theory. Redfern and Crawford (2004) and Redfern (2005) also found that Chinese managers were high on idealism and relativism. These results are consistent with Jakubowski, Chao, Huh and Maheshwari (2000) who used Reidenbach and Robin's (1990) multidimensional business ethics scale to assess Hong Kong managers' moral philosophies. They found that Hong Kong managers' ethical judgments were based on given situations. These results suggest that Hong Kong managers' ethical are both high on idealism and relativism dimensions suggested by Forsyth's ethical ideological theory.

1.2.4 Chinese cultural values and their influences on ethical ideologies

1.2.4.1 Chinese traditional cultural values

Chinese people's lives and behaviours are influenced by the philosophies of the Confucianism, Daoism and Buddhism. The basic principles and beliefs of these philosophies and religion have impacted on Chinese people values for over thousand years. Confucian virtues include: humaneness (*ren*), righteousness (*yi*), ritual/propriety (*li*), wisdom (*zhi*) and faithfulness (*xin*). These virtues are said to guide an individual's cultivation of his/her character in order to fulfill his/her role

(Yao 2000).

The doctrine of Daoism is to follow the natural way (*dao*). Daoism posits that nature has its own way (*dao*) by which all things become what they are (Yau 1994). Humans should follow the natural law and be in harmony with it. Keeping the balance of *ying* and *yang* is the basic belief of Daoism. This belief is similar to Confucius' doctrine of the mean which means that nothing ever goes to extremes, that it is balanced and harmonious (Yao 2000).

Buddhism also influences Chinese peoples' lives. Mercy, thrift, and humility are the three treasures of Buddhism (Chen 2001). Under Buddhism's influences, concepts like tolerance, patience, compassion, mercy, and persistence have become part of Chinese cultural values.

Hofstede's studies (1980, 1990) classified Chinese national culture as containing long-term orientation, large power distance, weak uncertainty avoidance, and low individualism while the Chinese Culture Connection (1987) suggested Chinese were high in Confucian work dynamism and human-heartedness, average with respect to moral discipline, and low in integration. Ralston et al. (1992) also showed that Chinese managers were high on the Confucian work dynamism dimension. Yuan and Shen (1998) and Mathews (2000) found that traditional Confucian values still applied to modern Chinese students. Mathews (2000) claims that Confucian ideals and values have not changed but altered to fit the new model of the political state. However, Schwartz's (1994; 1999) studies suggest that today's China is not a prototypical collective society. Tang (2002) found that the mean scores for the

Singapore managers on Confucian work dynamism were significantly higher than those of Chinese managers in China. Thus prior studies suggest that there are no consistent results that clarify whether Chinese cultural values have changed because of the influence of Mao's Thoughts and Deng's economic reforms.

1.2.4.2 Chinese people's *guanxi* orientations

Chinese interpersonal relationships or *guanxi* orientations are root in culture and regarded as a product of its national culture (Davies, Leung, Luk & Wong 1995). Tan and Snell (2002) comment that most ethics research assumes that individuals have autonomy in making independent ethical judgments, but ignores the fact that individuals work within a network of relationships.

The purpose of *guanxi* is to exchange information and do favours for one another. It is referred as favour-seeking *guanxi* (Su, Sirgy & Littlefield 2003). After China's economic reform in 1978, Chinese people's *guanxi* orientations have changed from its traditional pattern. It now includes back door deals and emphasizes power dependence relationships (Su & Littlefield 2001). It is regarded as a product of contemporary China's political and economic systems (Fan 2002; Seligman 1999; Steidlmeier 1999) and is referred to as rent-seeking *guanxi* (Su et al. 2003).

Prior studies found that the *guanxi* orientation was more evident in private companies than state-owned companies (see Xin & Pearce 1996; Chan, Cheng & Szeto 2002; Su et al. 2003). By the end of 1996 all Chinese accounting and auditing firms were funded either by government departments or institutions. Auditor independence was impaired because the government owned the clients and their auditors (DeFord,

Wong & Li 2000). Thus in 1997 the Chinese Institute of Certified Public Accountants (CICPA) conducted a disaffiliation program (Yang, Tang, Kilgore & Hong 2001) and almost all the accounting and auditing firms, which provided auditing services for listed companies were disaffiliated by the end of 1998 (Yang et al. 2001). The structural reform of these firms was completed by the end of 1999 (Narayan & Reid 2002). These firms are now privatized and financially and operationally independent. Thus the possible implication of *guanxi* orientations in an auditing context is that Chinese accounting firms may have to rely more on *guanxi* to market their auditing services after their firms are privatized.

1.2.4.3 Chinese people's attitudes towards money

Chinese people's economic focus has been on seeking maximum profits since economic reforms were introduced. Deng Xiao Ping's proclamation that 'to get rich is glorious' introduced a new market ethic in which profit was viewed as the primary and overriding goal (Whitcomb et al. 1998). Ping's proclamation contrasts starkly with Confucian and Maoist values. For example, Confucius stated that a person of noble character although he/she loved money obtained it in a moral way; while Maoists stress that everyone should work diligently and receive similar rewards.

Chinese people often say that money can make ghosts do things for them. According to the China Association for Promoting Democracy (1997), 64% of surveyed Chinese young people believe that money works wonders (cited in Ang 2000). Kao's (1993) study indicates that Chinese people like to work hard and save money wherever they can, but they still feel unsafe. Tang and Chiu (2003) suggest that Chinese people's attitudes towards money might change after China emerged from a controlled

economy to a free market economy. This importance of money or attitudes towards money will continue to shape Chinese society as China's economic development continues (Du & Tang 2005). Thus Chinese auditors' attitudes towards money and the impact of these on their ethical decision-making is also considered in this study.

1.3 Objectives of the Study

The aim of this study is examine the impact of Chinese auditors' values on their ethical decision-making, that is (1) ethical judgments and (2) ethical intentions. The three aspects of Chinese auditors' values include: (1) Chinese traditional cultural values, (2) *guanxi* orientations, and (3) attitudes towards money. Chinese auditors' work environment and personal factors are considered as contextual factors that influence Chinese auditors' ethical ideologies in this study. Thus this study answers the following general research questions:

1. What national cultural values best describe Chinese auditors?
2. How do Chinese cultural values impact ethical ideologies (i.e., Idealism and Relativism) as they apply to practicing auditors?
3. Do identifiable ethical ideologies, adopted by auditors, influence the decision-making process in issues relating to audit independence? In particular, ethical judgments and intentions.
4. How do certain contextual matters, namely firms' ethical culture and personal factors influence ethical ideologies?

The first objective of this study is to examine Chinese auditors' values which include, beliefs about traditional cultural values, interpersonal relationships (*guanxi*), and the

value of money (attitudes towards money).

The second objective is to examine the effects of Chinese auditors' values on their ethical ideologies. Chinese auditors' ethical ideologies are examined in two dimensions, idealism and relativism, according to Forsyth's (1980) ethical ideologies.

The third objective is to examine Chinese auditors' personal and other contextual factors on their ethical ideologies. Chinese auditors' personal factors include gender, age, the levels of education and position, and work experience. The contextual factor is the auditing firms' workplace culture which includes perspectives on managerial behaviour and an auditing firm's punishment systems for unethical behaviours.

The final objective is to examine the effects of Chinese auditors' ethical ideologies on their ethical judgments and intentions. Chinese auditors' ethical judgments and intentions are examined in a context which deals with a common ethical dilemma in auditing, that is, whether auditors should accept a client's suggestion to wrongly alter the financial position or comply with accounting and professional standards.

1.4 Significance of the Study

This study has practical and theoretical significance. First, this study is the first research that examines Chinese CPA auditors' values and ethical ideologies. It contributes to our understanding of their values and the effects of these on their ethical ideologies. This study helps us to understand that Chinese auditors hold strong beliefs about their traditional cultural values and their *guanxi* orientations. In

the impact of their views on the value of money will also be considered and evaluated in the context of their ideological preferences.

Second, this study is the first research to include a wide range of factors into ethical decision-making in a business context in China. It provides evidence about Chinese auditors' ethical judgments and intentions. It will also provide additional evidence about the effects of idealism and relativism in the ethical decision making process. Valuable insights will be gained about the various cultural factors influencing ideological processes and how these flow through to the decision making level. These results will provide useful information for Chinese governments and accounting professional bodies who monitor and oversee Chinese auditors' ethical behaviours to ensure they maintain audit independence and integrity.

Third, this study develops a Chinese auditors' ethical decision-making model which links Chinese cultural values and ethical ideologies. It also contributes by providing additional evidence that ethical decision-making involves moral philosophies as suggested by Forsyth (1980) and Hunt and Vitell (1986) in an auditing context in China.

Fourth, this study develops a rent-seeking *guanxi* scale based on Su et al.'s (2003) classification of *guanxi* orientations and Ang and Leong's (2000) *guanxi* scale. It contributes by providing a scale to measure the extent to which business relationships involves back door deals and power dependence.

1.5 Organisation of the Study

This study is organised as follows. Chapter 2 provides a literature review about Chinese traditional cultural values and Chinese people's interpersonal relationships and their attitudes towards money. Chapter 3 discusses China's economic reforms and development and the emerging importance of accounting and auditing in an open society. It also describes China's economic reforms and auditing environment. Chapter 4 provides definitions of morality, ethics, and values. These fundamental concepts are compared to identify the definitions for the study. Normative ethical theory and ethical ideology theory and the effects of ethical ideologies on an individual's ethical decision-making are also reviewed. Chapter 5 provides the theoretical framework and hypotheses development for the study. Chapter 6 describes the research design, including the research methodology, research instrument, data collection, measures, and statistical techniques used. Chapter 7 provides the results of the study. Chapter 8 provides the discussion of the results. Chapter 9 provides an overview of this study and discusses management implications of this study. It also identifies the limitations and provides the suggestions for further research.

Chapter 2

Traditional Chinese Cultural Values

The aim of this study is to examine the impact of Chinese auditors' values on their ethical decision-making. The first objective of this study is to examine Chinese auditors' values which include, beliefs about traditional cultural values, interpersonal relationships (*guanxi*), and the value of money (attitudes towards money). Thus this Chapter reviews definitions of culture, cultural theories, and Chinese people's attitudes towards interpersonal relationships and the value of money. It has four parts. Part 1 overviews definitions of culture and compares them to select the appropriate one for this study. Part 2 identifies Chinese traditional cultural values and focuses on the influences that Confucius and Daoist philosophies and Buddhism have had on Chinese people's lives. Part 3 overviews Chinese cultural values theory and compares them to widely used theories of culture, those of Hofstede (1980) and Schwartz (1994). Part 4 overviews modern Chinese business practices and focuses on Chinese interpersonal relationships (*guanxi*) and their attitudes towards money.

2.1 Definitions of culture

The term *culture* is derived from the Latin word *cultura*, which stems from the verb *colere* meaning 'tending' or 'maintaining' (Srnrka 2004). According to the *Dictionary of Modern Sociology* (Hout 1969), culture has three elements: values, norms, and artifacts. Values are ideas about what is important in people's lives; norms are standards which guide people's actions; and artifacts are objects or products made or shaped by humans and derived from values and norms. Kroeber and Kluckhohn (1952) reviewed hundreds of definitions of culture and then claimed that... 'the

essential core of culture consists of traditional ideas and especially their attached values' (Kroeber & Kluckhohn 1952 p. 181). Hofstede (1980) defines culture as... 'the collective programming of the mind which distinguishes the members of one human group from another' and it... 'includes systems of values' (p. 25). Yau (1994) asserts that... 'culture consists of values which serve as norms of behaviour' (p. 49) while Srnka (2004) proposes that... 'culture is a complex phenomenon rooted in the ideas and values shared by a group' (p. 1). Hofstede thereby concluded that... 'values are among the building blocks of culture' (1980 p. 25).

Culture can be defined in different ways. Markin (1974) provides three alternative definitions of culture types (see Yau 1994); (1) the transmission type which focuses on the common ideas shared by the members of a given group (Linton 1945); (2) the decision-making type which emphasizes problem solving solutions accepted by members of a given group (Ullman 1965); and (3) the behaviour type which stresses consistent values and their impact on human behaviour (Kroeber & Parsons 1958).

The aim of this study is to examine the effects of Chinese auditors' values on their ethical decision-making. Thus the definitions of culture provided by Kroeber and Kluckhohn (1952), Hofstede (1980) and Markin (1974) are used in this study because it focuses on the values and behaviours of Chinese auditors.

2.2 Chinese traditional cultural values

Chinese people's lives and behaviours are influenced by the philosophies of the Confucianism, Daoism and Buddhism and are discussed in greater detail below.

2.2.1 Confucian philosophy

Confucius (551-479 B.C.) is a Latinised form of the Chinese name Kong Fuzi or Master Kong (Yao 2000). His family name was Kong and his given name was Qui or Zhongni. He was born in the small state of Lu, which is located in Shangdong province, and lived in the Spring and Autumn period of the Zhou Dynasty. The Zhou Dynasty was founded on a feudal system which, under a central government controlled by the empire, was divided into many feudal states (Yao 2000). This system was initially established by Weng, first King of the Zhou Dynasty, and worked well. Shortly before Confucius was born however the heads of states fought each other to extend their individual power and land but they ignored the command and order from the central government (Yao 2000). The system then collapsed so people were living in endless suffering and misery. Confucius believed that this social chaos and disorder was caused by people abandoning and abusing the Zhou system of rites and ceremonies which was founded by Confucius' spiritual father, the great sage-minister of Zhou who helped Weng to establish the Zhou Dynasty. Confucius described this situation as... 'the decay of ritual/propriety (*li*) and the collapse of music (*ye*)' (Yao 2000 p. 22). *Li* means moral discipline in personal conduct and rules governing customs and human relationships. Confucius also believed that *li* and *yue* could only be achieved within *ren* (humaneness, benevolence or human-heartedness). He stated that only a person who had great moral virtues could govern the world and bring peace to it and that a person had to overcome himself (*ke ji*) by practicing rites and ceremonies (*fu li*) in order to cultivate character.

Confucius' dream and ultimate objective is a Grand Unity (*datong*) that is, a peaceful and harmonious life guaranteed by virtue and guided by ritual (Yao 2000). It is

realized only if people consciously follow the requirements of their roles and the way of harmony. The three core aspects of the Confucian doctrine are the way (*dao*) of humans, the way of heaven, and the way of harmony (Yao 2000). The way of humanity is the way of one's moral life (Yao 2000). One's virtue (*de*) is the basic moral principle of the way of humans. People should follow moral principles and cultivate their characters in order to fulfill duties to qualify for their roles. Daily behaviour should follow the doctrine of the mean (*zhong yong*) which requires that nothing ever goes to extremes, that it is balanced and harmonious. Confucius believed that the doctrine of the mean was the way of cultivating character and becoming a sage (Yao 2000). Confucius regarded heaven as the creator of life, the supreme governor of the universe and an administrator of human affairs (Yao 2000). It has its own way (natural law) of governing the universe, thus people should follow the laws of heaven because the way of heaven cannot be fulfilled unless human beings understand it and consciously carry it out.

The foundations of Confucianism are 'Three Guiding Principles' (*sang gang*) and 'Five Constant Regulations' (*wu chang*) (Lu 2003). Three guiding principles guide relationships between ruler and subject, father and son, and husband and wife. The principles are the ruler is the master of the subject, the father is the master of the son, and the husband is the master of the wife (Lu 2003). Confucius believed that a social hierarchy should be built on these principles. However, he also emphasized that these relationships must be reciprocal, that is that the ruler employs his subject with the rule of propriety/ritual while the subject serves the ruler with loyalty; the father should love his son while the son should show filial piety to the father; and the husband should love his wife while the wife should obey her husband (Yao 2000).

The five constant regulations also refer to five Confucian norms or virtues. They are: (1) humaneness (*ren*), (2) righteousness (*yi*), (3) ritual/propriety (*li*), (4) wisdom (*zhi*) and (5) faithfulness (*xin*). These virtues are basic moral principles which guide an individuals' cultivation of his/her character in order to fulfill his/her role in life. They are part of the Chinese cultural values which have influenced the way of Chinese people's lives for nearly three thousand years.

In summary, Confucianism is a cultivation of personal virtues and harmony with others. His golden rule, do not treat others as one would not like to be treated, is consistent with Forsyth's notion of idealism, that is that one never intentionally harm others even to a small degree (1980). However, the principle of harmony is concerned with social stability and people should not focus on themselves but on the group. It suggests that people should regard the group interest as more important than their own. This belief is consistent with the utilitarian principle that is what is good for the greatest number provides a best solution.

2.2.2 Daoism's philosophy

Daoism, based on the teaching of Lao Zi (604-531 BC) is another Chinese philosophy which influences the Chinese way of life. The doctrine of Daoism is to follow the natural way (*dao*). Daoism posits that nature has its own way (*dao*) by which all things become what they are (Yau 1994). People should follow natural law and harmony rather than master or conquer it. *Ying* and *yang* are the basic beliefs of Daoism. *Ying* represents negative, night, moon, earth, and female whereas *yang* represents positive, day, sun, heaven, and man. These natural laws imply that

everything has two sides. Keeping the balance of *ying* and *yang* is the basic belief of Daoism and is similar to Confucius' doctrine of the mean.

The fundamental moral principle of Daoism is based on the principle of 'without action' or 'non-action' (*wu wei*). *Wu* means not have or without; *wei* means doing or action. It is a complicated concept with many interpretations. Kardash (1998 p. 2) explained that *wu wei* means that we should listen to our inner voices and natural heart when doing things and... 'render our actions truly spontaneous, natural, and effortless'. Lao Zi said that... 'the work is done and then forgotten' (cited in Kardash 1998 p. 2) which means that people should do what we have to do by following their human nature, which is endowed by the universe without thought of any rewards. It is consistent with Confucius' *ren* (humaneness) moral principle and idealist ethical ideology means that one's action should follow the universal moral principles.

2.2.3 Buddhism's beliefs

Buddhism is a religion which also influences the Chinese way of life. It spread to China from India in the Han Dynasty about two thousand years ago (Yau 1994). Mercy, thriftiness, and humility are the three treasures of Buddhism (Chen 2001). The law of cause and effect (karma) is its basic tenet, meaning that one will receive good results by doing the right thing. Buddhists believe that anything that happens to them results from their past actions. They also believe that they will have a better future if they are doing the right thing in the present time. This belief, also called *yuarn*, is rooted within most Chinese hearts (Yau 1994). Thus Buddhists believe that every person should accept his/her current situation whether it be good or bad. A person should be grateful to Heaven if good things happen and should try to accept

all things in faithful resignation. Under Buddhism's influences, concepts like tolerance, patience, compassion, mercy, and persistence have become a part of Chinese cultural values.

2.3 Chinese cultural theory

2.3.1 Chinese values survey (CVS)

Ng et al. (1982) identified 40 items of Chinese traditional values in their study, namely the Chinese Values Survey (CVS). This 40-item CVS is a summary of those Chinese cultural values which reflect Confucian and Daoist's philosophies and the Buddhism religion.

In 1987, Bond and a group of Chinese social scientists conducted a survey, the *Chinese Cultural Values Survey*, based on Ng et al.'s (1982) 40-item Chinese traditional values (The Chinese Culture Connection 1987). The objective of this survey was to create... 'an instrument that tapped concerns fundamental to the Chinese worldview' (the Chinese Culture Connection 1987 p. 145). University students from 22 countries around the world were surveyed. Factor analyses identified 28 items and constructed four dimensions. These dimensions are labeled: (1) CVS_I (Integration), (2) CVS_{II} (Confucian work dynamism), (3) CVS_{III} (Human-heartedness), and (4) CVS_{IV} (Moral discipline). Confucian work dynamism (CVS_{II}) includes two components: CVS_{IIIF} (Confucian work dynamism future orientation) and CVS_{IIIP} (Confucian work dynamism past orientation). Table 1 presents these 28 items of Chinese cultural values within each of the five dimensions.

Table 1
Chinese Cultural Values and their Factor Loadings

CVS_I (Integration)	CVS_{IIF} (Confucian work dynamism) - future orientations
1. Tolerance of other (.86)	1. Ordering relationships (.64)
2. Harmony with others (.86)	2. Thrift (.63)
3. Solidarity with others (.61)	3. Persistence (.76)
4. Non-Competitiveness (.85)	4. Having a sense of shame (.61)
5. Trustworthiness (.69)	
6. Contentedness (.65)	
7. Being conservative (.56)	CVS_{IIP} (Confucian work dynamism) - past orientations
8. A close, intimate friend (.75)	1. Reciprocation (-.58)
9. Filial piety (-.74)	2. Personal steadiness (-.76)
10. Patriotism (-.62)	3. Protecting your 'face' (-.72)
11. Chastity in women (-.70)	4. Respect for tradition (-.62)
CVS_{III} (Human-heartedness)	CVS_{IV} (Moral discipline)
1. Kindness (.72)	1. Moderation (.65)
2. Patience (.88)	2. Keeping oneself disinterested (.56)
3. Courtesy (.76)	3. Having few desires (.67)
4. Sense of righteousness (-.57)	4. Adaptability (-.71)
	5. Prudence (-.58)

Source: The Chinese Culture Connection (1987)

Integration focuses on social stability which means... 'a sense of propriety and being in harmony with oneself, one's family, and other associates' (Ralston et al. 1992 p. 665). This dimension has the same content as the Confucian and Daoism philosophies principles, the way of harmony. For example, the first three items, (1) *tolerance of others*, (2) *harmony with others*, and (3) *solidarity of others* represent the values that one should foster with associates. *Trustworthiness* and *contentedness* also share the content of harmony with others. An individual who holds strong beliefs about these values is more likely to be in harmony with others and tolerant of

others. Three negative factor loading items are *Filial piety*, *chastity in women* and *patriotism*. *Filial piety* and *chastity in women* represent the importance of family (Matthews 2000). These values are traditional Chinese cultural values which influenced by Confucius' three principles of ordering relationships. *Patriotism* represents a person who loves his/her country. Thus values share the same concept with integration but in an opposite way meaning that an individual who holds strong beliefs about these values is less likely to be in harmony with others and tolerant of others.

Confucian work dynamism focuses on the social hierarchy and personal virtues identified by Confucius and reflect core values. For example, the first item, *ordering relationships*, is the foundation of 'Three Guiding Principles' promoted by Confucianism while the items, *thrift*, and *persistence* are some of 'Five Constant Regulations' (five virtues) identified by Confucius. Social hierarchy reflects three relationship principles that are ruler and subject, father and son, and husband and wife. Confucius emphasized that these relationships must be reciprocal and a person who wants to fulfil his/her role in these relationships should cultivate appropriate virtues. These values are regarded as Confucian work dynamism future orientations.

The four negative loaded items in CVS_{II} (Confucian work dynamism) dimension are regarded as Confucian work dynamism past orientations. They are *reciprocation*, *protect your 'face'*, *personal steadiness*, and *respect for tradition*. *Reciprocate* means... 'to give and receive reciprocally or interchange' (Macquarie Australia's National Dictionary 2002 p. 334). *Face in society* is a mechanism for Chinese people to develop and maintain relationships with each other (Su & Littlefield 2001).

Personal steadiness means a person should express a consistency of manner that extols integrity. *Respect for tradition* means respect for traditional Chinese cultural values.

Human-heartedness deals with a person's social awareness, being kind and courteous to others (Ralston et al. 1992). The first item, *kindness*, represents Buddhism's basic belief, compassion, and the core value of Confucian norms, humanness (*ren*). The items, *courtesy* and *sense of righteousness*, are two of five virtues suggested by Confucius.

Moral discipline features aspects of moral restraint, which focus on personal control (Ralston et al. 1992). The first item, *moderation*, represents the Confucian doctrine of the mean (*zhong yong*) which is the way of one's moral life while the items, *keeping oneself disinterested*, *having few desires*, *prudence* and *adaptability*, reflect Buddhist beliefs about thriftiness, karma and *yuarn*. *Prudence* implies cautious practical wisdom and judgments; and *adaptability* implies the ability to adapt oneself easily to new conditions. These two values are the negative factor loading items in the moral discipline dimension.

Three Chinese societies, Hong Kong, Taiwan, and Singapore were included in the Chinese Culture Connection's (1987) study. Results showed that the factor loading scores of these three societies were low on Integration, high on the Confucian work dynamism and Human-heartedness dimensions, and middling on the dimension Moral discipline, compared to other countries.

Ralston et al. (1992) compared Chinese cultural values between managers from the United States, Hong Kong, and the People's Republic of China (PROC) using the CVS values. They found that the mean scores for American managers on the Integration (CVS_I) were significantly higher than for the PROC managers but not significantly different for Hong Kong managers. Results also showed that American and Hong Kong managers' scores on the Human-heartedness (CVS_{III}) were significantly higher than the PROC managers' scores. Moreover, results showed no significant difference in mean scores for the Moral discipline dimension (CVS_{IV}) among these three countries' managers, but the mean scores of PROC and Hong Kong managers on Confucian Work Dynamism (CVS_{II}) were significantly higher than for American managers.

Tan (2002) also compared the cultural values of Chinese managers from Singapore, the People's Republic of China, and America using the CVS scale. Tan's study was based on three schools of thought about cross-cultural research; (1) Convergence theory which claims that... 'when managers of different cultures interact to conduct business internationally, they will display similar managerial values despite their cultural differences' (Tan 2002 p. 815); (2) divergence theory which claims that... 'cultures are deeply rooted in individuals and will be retained regardless of economic ideology' (Tan 2002 p. 815); and (3) Crossvergence theory which claims that... 'the integration of cultural and economic ideological influences will result in a unique value system different from any of the original cultures' (Tan 2002 p. 815). Results showed that Chinese managers from the PROC had a significantly lower mean score than Chinese managers from America and Singapore on the Integration (CVS_I) and Moral discipline (CVS_{IV}) dimensions. The PROC subjects had the lowest

mean score in terms of ranking the strength of the values held by these managers across the three countries. Results also showed that the mean scores for the Singapore managers on Confucian Work Dynamism were significantly higher than those of the PROC managers, but not significantly different to Chinese managers from America. Thus results of this study support convergence theory.

Table 2 summarises the outcomes of the aforementioned studies, showing the levels of association with Chinese national values for each of the countries involved.

Table 2
Results of Chinese Values Survey (CVS) Studies in Chinese Sample

	HK	Singapore	Taiwan	China
Integration (CVS _I)	Low	Low	Low	Low
Confucian work dynamism (CVS _{II})	High	High	High	High
Human-heartedness (CVS _{III})	High	High	High	Low
Moral discipline (CVS _{IV})	Middle	Middle	Middle	Low

2.3.2 Chinese values survey and Hofstede's cultural theory

In order to test the cultural equivalence of these CVS factors as a measuring instrument, the national mean score for each CVS dimension for the 20 countries was correlated with those countries reported in each of the Hofstede's (1980) and Chinese Culture Connection's (1987) studies. This section provides an overview of Hofstede's cultural theory and discusses the results of correlation.

2.3.2.1 Hofstede's cultural theory

After reviewing the literature, Hofstede concluded that prior cultural theories reflected the subjective choices of their authors and lacked any commonality. These

theories are (1) Parsons and Shils' (1951) *General Theory of Action*, (2) Kluckhohn and Strodtbeck's (1961) value orientations, (3) Ackoff and Emery's (1972) two cultural dimensions, and (4) Douglas' (1973) two dimensions (ways) of looking at the world (cosmologies). Hofstede concluded that Inkeles and Levinson's (1969) intersubjective approach and three standard analysis issues: (1) relation to authority, (2) conception of self, and (3) primary dilemmas or conflicts and ways of dealing with them, are helpful for developing new cultural dimensions. Thus in 1980, he developed new cultural dimensions based on the three standard analytic issues suggested by Inkeles and Levinson's (1969).

Hofstede's (1980) study consisted of 117,000 attitude questionnaires sourced from 66 countries. Some countries were deleted due to the instability of the data (Hofstede 1980) leaving 40 countries for data analysis. The three cultural dimensions were identified using factor analysis based on this data. One dimension was split into two dimensions because... 'they were conceptually distinct' (Hofstede 1980 p. 84). Thus four cultural dimensions emerged: (1) *power distance*, (2) *individualism versus collectivism*, (3) *uncertainty avoidance*, and (4) *masculinity versus femininity*. His subsequent work (Hofstede 1983) extended the national set of countries to 50, and three regions.

The first dimension, *power distance*, is concerned with human inequality issues. It is based on a hierarchical boss-subordinate relationship in a group or a society (Hofstede 1980). Hofstede defined power distance as... 'the extent to which the members of a society accept that power in institutions and organizations is distributed unequally' (Hofstede 1985 p. 347). People in a large power distance group

or society accept unequal relationships between them and their superordinates. They see this inequality as normal so they do not challenge it. In contrast, people in a small power distance group or society expect power to be distributed fairly so they are less afraid to disagree with authorities or bosses.

The second dimension, *individualism versus collectivism*, is concerned with...‘the relationship between the individual and the collectivity which prevails in a given society’ (Hofstede 1980 p. 213). Individualism is defined as...‘a situation in which people are supposed to look after themselves and their immediate family only’ whereas collectivism is defined as...‘a situation in which people belong to in-groups or collectivities which are supposed to look after them in exchange for loyalty’ (Hofstede & Bond 1984 p. 419). People in an individualist culture focus more on themselves and not on the well-being of a group or a society. In contrast, people in a collective culture are not focused on themselves but the group and regard the groups’ interests as more important than their own.

The third dimension, uncertainty avoidance, is concerned with issues like the future of humanity. Uncertainty avoidance is defined as...‘the extent to which people feel threatened by ambiguous situations, and have created beliefs and institutions that try to avoid these’ (Hofstede & Bond 1984 p. 419). People strong in uncertainty avoidance are concerned about security in life and are uncomfortable in unstructured situations. Thus they adhere to strict laws and rules to minimize such situations (Hofstede & Bond 1988). People weak in uncertainty avoidance rely less on laws or rules and are more tolerant of others’ opinions and behaviours (Hofstede & Bond 1988).

The fourth dimension, masculinity *versus* femininity, is concerned with the distribution of roles between the sexes (Hofstede & Bond 1988). Masculinity, defined as a dominant value, focuses on material assets, success, money, and things. Femininity, defined as a dominant value, focuses on caring for others and the quality of life (Hofstede & Bond 1984).

Hong Kong, Taiwan, Singapore, and China were included in Hofstede's (1980) and (1991) nation studies. Results of these, based on the loading factor scores show that the Chinese sample demonstrated a long term orientation with large power distance, weak Uncertainty avoidance, high Confucian Work Dynamism, and high Integration.

2.3.2.2 Results of correlation

Intercorrelations between the Hofstede's (1980) and the Chinese Culture Connection's (1987) dimensions are shown in Table 3.

Table 3
Intercorrelations between the Hofstede's and CVS's Dimensions

	1	2	3	4	5	6	7	8
1. CVS _I (Integration)					-.58		.65	
2. CVS _{II} (Confucian work dynamism)								
3. CVS _{III} (Human-heartedness)								.67
4. CVS _{IV} (Moral disciple)					.55		-.54	
5. Power distance							-.77	
6. Uncertainty avoidance								
7. Individualism								
8. Masculinity								

Source: The Chinese Cultural Connection (1987)

The Chinese Culture Connection's (1987) study found that Hofstede's *power distance* was negatively correlated to CVS_I (Integration) but positively correlated to CVS_{IV} (Moral discipline). The results suggest that large power distance high moral discipline but low integration. It also found that Hofstede's *individualism* positively correlated to CVS_I (Integration) but negatively correlated to CVS_{IV} (Moral discipline). The results indicate that high individualism high integration but low moral discipline.

The results also showed that Hofstede's *uncertainty avoidance* dimension did not correlate with any of the CVS dimensions and CVS_{II} (Confucian work dynamism) did not correlate with any of Hofstede's dimensions. In respect of the question as to why *uncertainty avoidance* was missing from the Chinese Value Survey and the CVS_{II} (Confucian work dynamism) was not found in Hofstede's study, Hofstede (1994) contends that uncertainty avoidance is based on the Western philosophical search for *truth* which is a belief based on religion and man's attempt to find absolute *truth*. CVS_{II} focuses on Confucian ideas about *virtue*. Hofstede also claimed that Western thinking is analytical and logical whereas Eastern thinking is synthetic. Thus he concluded that western ethical rules are derived from religion and western people believe that virtue is from *truth*, meaning that the questionnaire designed by Western countries deals with *truth* whereas the questionnaire designed by Asian social scientists deals with *virtue*. Thus CVS_{II} (Confucian work dynamism) is a unique dimension which relates to Confucian ideas only. It was adopted as a new dimension in Hofstede's (1991) study and titled as the Long-term Orientation.

The results of the Chinese Culture Connection's (1987) study suggest that both

studies are conceptually equivalent. Thus it concluded that the overlapping dimensions were culture-free dimensions and represented universal values and CVS_{II} (Confucian work dynamism) was a unique dimension reflects Chinese traditional cultural values.

2.3.3 Chinese values survey and Schwartz's (1994) cultural theory

In order to discover central and reliable dimensions of cultural values, Bond (1996) conducted a second-order confirmatory factor analysis using the country means for the 12 nations included in the Chinese Culture Connection (1987), Hofstede (1991), and Schwartz (1994) studies. This section provides an overview of Schwartz's cultural theory and discusses the relationships between the three approaches.

2.3.3.1 Schwartz's cultural theory

The objective of Schwartz's (1994) study was to develop a theory of value types to compare cultures. The theoretical framework for his studies is based on three basic social issues (Smith & Schwartz 1997 p. 99), as follows:

1. Relations between individuals and groups: to what extent are persons autonomous *versus* embedded in groups?
2. Assuring responsible social behaviour: how to motivate people to consider others' welfare and coordinate with them?
3. The role of humankind in the natural and social world: is it more practical to submit, to fit in, or to exploit?

Seven value types were identified based on these three social premises: (1) conservatism, (2) intellectual autonomy, (3) affective autonomy, (4) hierarchy, (5)

egalitarianism, (6) mastery, and (7) harmony (Schwartz 1994). These value types form three bipolar dimensions which express the contradictions between the alternative resolutions to each of the above mentioned issues: i.e. (1) conservatism *versus* autonomy, (2) hierarchy *versus* egalitarianism, and (3) mastery *versus* harmony (Schwartz 1994).

In conservative cultures...‘the person is viewed as embedded in a collectivity, finding meaning in life largely through social relationships, through identifying with the group and participating in its shared way of life’, whereas in autonomy cultures...

.....‘the person is viewed as an autonomous, bounded entity who finds meaning in his or her own uniqueness, who seeks to express his or her own internal attributes (preferences, traits, feelings, motives) and is encouraged to do so’ (Smith & Schwartz 1997 p. 99).

Thus the first bipolar dimension shares similar aspects with the Chinese Culture Connection’s (1987) CVS_I (Integration) and CVS_{IV} (Moral discipline) dimensions and Hofstede’s Power distance and Individualism dimensions.

In hierarchical cultures the emphasis is...‘on the legitimacy of an unequal distribution of power, roles and resources’ (Schwartz 1999 p. 27). People in hierarchical cultures...‘are socialized to comply with the obligations and rules attached to their roles and sanctioned if they do not’ (Smith & Schwartz 1997 p. 100). People in egalitarian cultures emphasize and promote the welfare of others, not the pursuit of self-interest (Schwartz 1999). Thus the second bipolar dimension shares similar contents with CVS_{II} (Confucian Work Dynamism) and CVS_{IV} (Moral discipline).

In mastery cultures the emphasis is on promoting oneself whereas in harmony cultures the emphasis is on fitting into the environment harmoniously (Schwartz 1999). People in high mastery cultures want to master and change the natural and social world by asserting control and exploiting it for their own personal gain, whereas people in harmony cultures tend to accept the world as they find it by preserving its treasures, and not trying to change it (Smith & Schwartz 1997). Thus the third bipolar dimension shares similar contents with CVS_{III} (Human-heartedness) and Hofstede's Masculinity/Femininity.

To validate these value concepts and the structure of value types, Schwartz surveyed teachers, students, adults, and workers in 54 countries for his 1994 study, and 49 countries in a 1999 study. Subjects were asked to rate the importance of the 56 values which he had developed in his 1992 study. Results showed that 45 values were deemed to have stable cross-cultural meanings and were included in the analysis (Smith & Schwartz 1997; Schwartz 1999). Results confirmed the proposed value contents and the structure of the value types.

A sample from Mainland China was included in Schwartz's (1994; 1999) studies. For example, in his 1999 study, Chinese respondents were 1,217 schoolteachers and 1,639 students. Results of these two studies revealed that the Chinese sample was high on the hierarchy and mastery dimensions, average on the autonomy-conservatism dimension, and low on the egalitarian commitment dimension. Thus Schwartz (1994) commented that China is not a prototypical collective society.

2.3.3.2 Results of confirmatory analysis

Results of a second-order confirmatory factor analysis in Bond's (1996) study yielded four factors: (1) individualism-hierarchy, (2) order-autonomy, (3) discipline-assertion, and (4) achievement. The first factor includes the Chinese Culture Connection's (1987) CVS_I (Integration), Hofstede's Power distance and Individualism, and Schwartz' egalitarian commitment, intellectual autonomy, conservatism, and hierarchy. The second factor includes the Chinese Culture Connection's (1987) CVS_{IV} (Moral discipline), Hofstede's Uncertainty avoidance, and Schwartz's intellectual autonomy, harmony, and affective autonomy. The third factor includes the Chinese Culture Connection's (1987) CVS_{II} (Confucian Work Dynamism) and CVS_{IV} (Moral discipline), and Schwartz's affective autonomy and mastery. The fourth factor includes the Chinese Culture Connection's (1987) CVS_{III} (Human-heartedness), Hofstede's Masculinity/Femininity, and Schwartz's mastery. The details of these four factors and their factor loadings are shown in Table 4.

Results of Bond's (1996) study indicate that these separate cultural theories are connected. Such connections provide evidence of construct validity for the three cultural theories. However, Bond (1996) reminds us that... 'any conclusion made from these results must be regarded as tentative' (p. 220) because samples include only 12 nations.

In summary, the Chinese Culture Connection (1987) is a Chinese cultural value based theory. It is largely consistent with western cultural theories (see Hofstede 1980; Schwartz 1994) with the addition of an Eastern element, Confucian Work

Dynamism (Ralston et al. 1992), and is widely used in cultural studies. Thus it is deemed to be a reliable and valid theory in studying Chinese people's cultural values. The associated instrument will be used in the survey of Chinese auditors and the process for its application is discussed in Chapters 5 and 6.

Table 4
Factor Structures and the Factor Loadings in Bond's (1996) Study

	Item	Study	Factor Loadings
Factor I	Egalitarian commitment	Schwartz (1994b)	.95
	Individualism	Hofstede (1980)	.86
	Integration	The Chinese Culture Connection (1987)	.85
	Intellectual autonomy	Schwartz (1994b)	.63
	Power distance	Hofstede (1980)	-.79
	Conservativism	Schwartz (1994b)	-.80
	Hierarchy	Schwartz (1994b)	-.97
Factor II	Uncertainty avoidance	Hofstede (1980)	.89
	Intellectual autonomy	Schwartz (1994b)	.70
	Harmony	Schwartz (1994b)	.69
	Moral discipline	The Chinese Culture Connection (1987)	.57
	Affective autonomy	Schwartz (1994b)	.48
Factor III	Confucian work dynamism	The Chinese Culture Connection (1987)	.74
	Moral discipline	The Chinese Culture Connection (1987)	.68
	Affective autonomy	Schwartz (1994b)	-.73
	Mastery	Hofstede (1980)	-.73
Factor IV	Masculinity	Hofstede (1980)	.93
	Human-heartedness	The Chinese Culture Connection (1987)	.91
	Mastery	Schwartz (1994b)	.48

Source: Bond (1996)

2.4 Chinese people's *guanxi* orientations

2.4.1 The concepts of *guanxi*

Chinese people's *guanxi* orientations are referred as Chinese people's interpersonal relationships. *Guanxi* is culture-rooted and regarded as one product of Chinese culture (Davies et al. 1995). The term *guanxi* consists of two Chinese words, *guan* and *xi*. *Guan* means... 'a door and its extended meaning is to close up' (Luo 1997 p. 44). *Xi* means to... 'tie up and extend into relationships' (Luo 1997 p. 44). *Guanxi* therefore means... 'past the gate and get connected' (Lee & Dawes 2005 p. 29). A person inside the door is regarded as 'one of us' who can be trusted whereas a person outside the door is regarded as a stranger and not to be trusted (Luo 1997). Davies (1995) defined the term *guanxi* as... 'social interactions within the network place and its members in the equivalent of an infinitely repeated game with a set of people they know' (p. 22). It is culturally rooted (Su et al. 2003) and an ancient system based on personal relationships (Lovett, Simmons & Kali 1999) e.g. family, geographic origin, schoolmates, etc. (Steidlmeier 1999). It is transferable, reciprocal and belongs to a person (Luo 1997). *Yi* (brotherhood) and *bao* (reciprocity) are two key concepts of *guanxi* (Su & Littlefield 2001). Chinese people believe that people living on the earth are family so they should help each other when they need help. In turn people receiving assistance should express gratitude for any assistance received.

From a cultural perspective, Chinese people perceive *guanxi* to be ethical (Lovett et al. 1999). However, many westerners believe that *guanxi* is related to unethical behaviours like corruption and bribery (Chan et al. 2002). Especially after China's economic reform and maximum profit seeking focus, *guanxi* has changed in its application within today's Chinese business environment.

2.4.2 *Guanxi* and ethics

Is *guanxi* ethical? There is no ‘yes’ or ‘no’ answer. It depends on the type of *guanxi* and what kind of moral principles are associated with it. Su and Littlefield (2001) classify *guanxi* as favour-seeking *guanxi* or rent-seeking *guanxi*. Favour-seeking *guanxi* is...‘culturally rooted, signifying social contracts and interpersonal exchanges of resources in a collectivistic society’ (Su et al. 2003 p. 310). It includes relationships among family members, relatives, friends, classmates, or strangers. Favour-seeking *guanxi* is emotionally driven and affection is exchanged (Lovett et al. 1999; Fan 2002). It is also based on an obligation rule (Su & Littlefield 2001) and has a long-term relationship focus (Lovett et al. 1999). The major purpose of favour-seeking *guanxi* is to exchange information and do favours for each other. *Mianzi* (face in society or social status) and *renqing* (social or humanised obligation) (Luo 1997) are two major mechanisms for Chinese people to develop and maintain *guanxi* with each other (Su & Littlefield 2001). In the context referred to above, favour-seeking *guanxi* is generally perceived to be good and ethical (Chan, Cheng & Szeto 2002) and Su et al. (2003) found that it...‘ha[d] very little to do with ethical reasoning’ (p. 1).

Rent-seeking *guanxi* on the other hand...‘reflects on institutional norms signifying social collusion based on power exchanges in a hybrid Chinese socialist market economy’ (Su et al. 2003 p. 310). Fan (2002) defines it as B2G *guanxi*, which means the parties involved in the relationship are a businessperson on one side and a government official on the other. Rent-seeking *guanxi* did not prevail until China’s economic reform began (Seligman 1999; Steidlmeier 1999) and is regarded as a product of contemporary China’s political and economic systems (Fan 2002). It

involves back door deals and emphasizes power dependence relationships (Su & Littlefield 2001). Thus it is synonymous with corruption and bribery (Fan 2002; Su & Littlefield 2001). Millington, Eberhardt and Wilkinson (2005) indicate that gift giving is associated with illicit payments, corruption and the pursuit of self-interest.

2.4.2 *Guanxi* and auditing

Prior studies indicated that the *guanxi* orientation was associated with share ownership. For example, Xin and Pearce (1996) found that executives in privately owned organizations placed more value on their business connections, relied more heavily on *guanxi* for protection and gave more unreciprocated gifts. Chan et al. (2002) found that Chinese executives in privately owned firms or joint-ventures were more involved with *guanxi* and engaged in unethical activities for profit. Su et al. (2003) also found that the *guanxi* orientation was more evident in private companies than state-owned companies and concluded that *guanxi* is...‘an important way for private companies to secure or share scarce resources for survival’ (p. 305). Their research was confirmed by Millington et al. (2005) who found that the supply relationship between UK-owned companies in China and private Chinese suppliers is significantly connected to *guanxi* networks. Thus prior studies suggest that privately owned companies rely more on the *guanxi* orientation than do state-owned enterprises.

By the end of 1996 all Chinese accounting and auditing firms were funded either by government departments or institutions. Auditor independence was impaired because the government owned the clients and their auditors (DeFord et al. 2000). In 1997 the Chinese Institute of Certified Public Accountants (CICPA) conducted a disaffiliation

program. Almost all the accounting and auditing firms which provided auditing services for listed companies were disaffiliated by the end of 1998, (Yang et al. 2001). The structural reform of these firms was completed by the end of 1999 (Narayan & Reid 2002). These firms are now privatised and financially and operationally independent. Thus the possible implication of *guanxi* orientations in an auditing context is that Chinese accounting firms may have to rely more on *guanxi* to market their auditing services creating a threat to audit independence.

Su and Littlefield (2001) suggest that favour-seeking *guanxi* is different to rent-seeking *guanxi*. Literature review shows that most prior studies did not distinguish between rent-seeking and favour-seeking *guanxi* in studying *guanxi* orientations. Ang and Leong (2000) developed a 9-item *guanxi* scale based on Chinese traditional cultures and Chinese people's interpersonal relationships. The scale... 'cover[s] various aspects of *guanxi* including knowing the right people, maintaining a network of relationships, being in the "inside" circle, returning favour for favour, gift giving, and cooperation' (Ang & Leong 2000 p. 137). However, Su et al (2003) commented that Ang and Leong's (2000) *guanxi* scale was developed to measure traditional Chinese people's relationships but not modern business relationships in China. Without examine rent-seeking *guanxi*, prior studies may not truly reflect Chinese people's modern business relationships. Thus this study adopted Ang & Leong's (2000) *guanxi* scale to measure Chinese auditors' favour-seeking *guanxi* orientations and also developed a rent-seeking *guanxi* scale to Chinese auditors' rent-seeking *guanxi* orientations (see the details in Chapter 6).

2.5 Chinese people's attitudes towards money

2.5.1 Economic focus and profit seeking

The modern history of China began in 1978. Deng Xiaoping's economic reform policy introduced free market orientations within a centrally controlled environment. His proclamation that 'to get rich is glorious' introduced a new ethic in which profit was viewed as the primary and overriding goal (Whitcomb et al. 1998). Deng's proclamation contrasts starkly with Confucian and Maoist-Leninist values. For example, Confucius stated that a person of noble character although he/she loved money obtained it in a moral way; while Communism stresses that everyone should work diligently and receive similar rewards.

'It has been said that money makes the world go round' (Ang 2000 p. 43). Chinese people often say that money can make ghosts do things for them. According to the China Association for Promoting Democracy (1997), 64% of surveyed Chinese young people believe that money works wonders (cited in Ang 2000). Kao's (1993) study indicates that Chinese people like to work hard and save money wherever they can, but they still feel insecure.

Since the commencement of economic reform, the focus has adopted a profit-maximisation approach. Using Rokeach's (1973) value definition, being rich is a terminal value and making money an instrumental value. Tang and Chiu (2003) suggested that Chinese people's attitudes towards money might change when China finally emerged from a controlled economy to a free market economy. The importance of money and attitudes towards money will continue to shape Chinese society as China's economic development continues (Du & Tang 2005). For example, Whitcomb et al. (1998) examined ethical decision-making using a Chinese sample

and an American sample to compare each country's response to the same ethical dilemma. Results showed that the Chinese group was more concerned with a profit-related rationale than the American group. These results suggest that to seek maximum profit is important for today's Chinese people. Chui, Luk and Tang's (2001) study also indicated that Chinese people's desire for money was very high, and they had a strong motivation to work hard to that end. Lim (2003) found that Singapore Chinese who believed in the Confucian value of thrift, were more likely to budget and retain their money. Yang (2003) also found that Chinese sales-personnel considered money to be an important kind of reward.

2.5.2 The love of money and ethics

The meaning of money is... 'in the eye of the beholder' (McClelland 1967 p. 10). Smith (1937) defined money as an instrument of commerce and a measure of value (see Luna-Arocas & Tang 2004). Luna-Arocas and Tang (2004) argue that the meaning of money and the love of money are different. They claim that... 'the love of money does not represent one's needs, instead it reflects one's wants and values' (p. 331). Maslow's (1970) Needs theory suggest that satisfied needs are not motivators for making money but unsatisfied needs are. Thus Luna-Arocas and Tang (2004 p. 331) argued that... 'the love of money is the measure of one's values, wants, and desires'.

Tang and Chui (2003) found, using a sample of Hong Kong employees, that money (income) is not related to unethical behaviours but the love of money is. And also their study showed that money (income) was negatively associated with the love of money. This result suggested that high-income Hong Kong employees had a lower

level of the love of money. (Tang & Chui 2003) commented that Hong Kong employees' incomes are significantly higher than the GDP per capita so it satisfies their needs and money is no longer important for them according to Maslow's (1970) Needs theory.

This study examines Chinese auditors' attitudes towards money in the context of the love of money rather than money itself. It focuses on Chinese auditors' beliefs about the value of money and the effects of their attitudes towards money on their ethical ideologies.

Tang (1992) proposed a 50-item ethical scale based on different money attitude theories i.e., money as related to different needs (Maslow 1954), the *Love of Money* (Werimont & Fitzpatrick 1972), the management of money (Furnham 1984), and obsession and power of money (Yamauchi & Templer 1982; Furnham 1984). Tang (1993) summarized the money attitudes into three categories: affective (good and evil), cognitive (achievement, respect, power), and behavioural (budget). In 2003, Tang and his associates developed a theory, namely the *Love of Money*, to reflect the affective and cognitive components and it includes four factors: (1) importance (2) success, (3) motivator, and (4) rich. The *importance* factor is concerned with money as important and good; the *success* factor is concerned with money as a measure of one's success and achievements, the *motivator* factor is concerned with money as a motivator; and the *rich* factor is concerned with one's desire to be rich. The *Love of Money* (LMOS) theory is well developed and widely used in studying people's attitude towards money (Du & Tang 2005). It was tested by using 5,341 employees...in 26 geopolitical entities across five continents with different

languages, cultures, and religions' (Luna-Arocas & Tang 2004 P. 332). Results suggest that the LMOS is a reliable and valid scale for measuring people's attitudes towards money. In addition in 2005, Du and Tang tested the invariant factorial structure of the LMOS on a Chinese sample using confirmatory factor analysis. Results from 319 Chinese graduate students confirmed the measurement invariance of the LMOS. The details of the LMOS will be provided in Chapter 6.

Conclusion

This Chapter reviews definitions of culture, cultural theories, and Chinese people's interpersonal relationships (*guanxi*) and their attitude towards money. The literature review shows that Chinese people's lives and behaviours are influenced by the philosophies of the Confucianism, Daoism and Buddhism. The Chinese Culture connection (1987) study suggest that Chinese cultural values can be summarized into five dimensions: (1) CVS_I (Integration), (2) CVS_{IF} (Confucian work dynamism future orientation), (3) CVS_{IP} (Confucian work dynamism past orientation). (4) CVS_{III} (Human-heartedness), and (5) CVS_{IV} (Moral discipline). Prior studies also suggest that these five Chinese cultural value dimensions are conceptually equivalent to Western cultural theory studies like Hofstede (1980, 1991) and Schwartz (1994) with the addition of an Eastern element, Confucian Work Dynamism. It is also widely used in cultural studies and is a reliable and valid theory in studying Chinese people's cultural values.

Chinese people's interpersonal relationships (*guanxi*) are a part of Chinese culture. Their attitudes towards money are also influenced by their beliefs about traditional cultural values. After China's economic reform, Chinese people's *guanxi* has changed

from its traditional way and rent-seeking *guanxi* has dominated in Chinese businesses today. Chinese people's attitudes towards money are also changing to focus on profits seeking and to be rich. These modern business relationships and Chinese people's beliefs about the value of money have brought the ethical issues into business practice in China.

What national cultural values best describe Chinese auditors? This is one of research questions that this study seeks to answer. This study identifies that Chinese auditors' values include their beliefs about traditional cultural values, interpersonal relationships (*guanxi*), and the value of money (attitudes towards money). The literature review in this Chapter suggests that these variables can be described by using the Chinese Culture connection's (1987) CVS, Ang and Leong's (2000) *guanxi* scale, and Tang et al.'s (2003) LMOS. The details of research design will be discussed in Chapter 6.

The literature review also suggests that China's economic reform has significantly changed Chinese people's interpersonal relationships and their attitudes towards money. China's transformation and consequences of economic reforms on China's legalist and regulatory framework, accounting and auditing systems, and accounting education will be discussed in the following Chapter.

Chapter 3

The Impact of China's Economic Reforms and Development on its Auditing Professional Environments

The Chinese auditing profession has very short history. The first accounting firm was established in 1981 as a subsidiary of a government organization in Shanghai (Narayan & Reid 2002) as a consequence of China's economic reforms. The Literature review in Chapter 2 suggests that China's economic reform has significantly influenced on Chinese people's beliefs in their traditional cultural values. Hunt and Vitell (1986, 1993) suggest that professional environments are the important external factors in influencing an individual's ethical decision-making. Thus discussion of China's transformation and consequences of economic reforms on China's legalist and regulatory framework, accounting and auditing systems, and accounting education are necessary for studying Chinese auditors' ethical decision-making. Thus this Chapter reviews China's economic reform and recent development. It focuses on the emerging importance of accounting and auditing in an open society. It covers events from the beginning of the 20th Century, through the Communist Revolution (1949-1978) and the ensuing period of economic expansionism. It also includes the discussion about China's auditing legal and regulatory frameworks, auditors' qualifications, legal liabilities, and professional ethics.

3.1 China's economic reform and its auditing practices development

China's economic reform is driving change in the Chinese economy, legalist and market infrastructures, regulatory framework, accounting and auditing systems, and accounting education. Discussion of China's transformation and consequences of

economic reforms must include the influence of Mao Zedong (Mao), and Deng Xiaoping (Deng). Four stages are apparent: the closed society (1949–1978), opening up China (1978–1990), consolidating economic reforms (1990–2001), and continuing economic reforms (2001 to the present).

3.1.1 Closed society (1949–1978)

Chairman Mao Zedong proclaimed the People's Republic of China on 1 October 1949. He applied his own brand of Communism, which effectively isolated China from the world economy under a policy of self-containment and self-sufficiency.

First, the country's economy was centrally planned and its legal and regulatory frameworks were based on central communist policies. Chairman Mao became the sole ruler and creator of all policies and regulations (Tai 2003). The teaching of "Mao Zedong Thought" and Marxist-Leninist philosophy became the official doctrine of the Communist Party of China and the guiding principles for all things in China during this period (Lu 1997). His overriding focus was on the class struggle. The country's economy stagnated.

Second, the education system was destroyed. University entrance examinations were discontinued and intellectuals were shipped to rural labour camps. Young city people were moved to the countryside to labour camps after they completed high school. Normal education included propaganda about Marxism and Mao Zedong Thought (Lu 1997).

Third, the only external influence was Russia. Soviet accounting systems were used

to measure central planning objectives/outcomes (Graham & Li 1997). Accounting courses and accounting theory development were abandoned in universities because they were deemed to be too complicated for the masses; terms like 'debit' and 'credit' were replaced with 'plus' and 'minus' (Graham & Li 1997). Thus there were millions of unqualified bookkeepers and no public accountants in this period (Ge & Lin 1993).

Fourth, the Chinese Certified Public Accountants (CPA) profession and public accounting services were abolished and replaced by the Soviet accounting system after 1949. According to DeFord, Wong and Li (2000) and Ge and Lin (1993), Chinese Certified Public Accountants (CPA) profession and public accounting services were established in the 1920s. However, after adopting the Soviet accounting system, the Chinese version was standardized to provide services across sectors and industries (Narayan & Reid 2002). It provided statistical information about sources and applications of funds but no financial information (Narayan & Reid 2002). There were no independent auditors because public accounting practice and the state audit system were also suspended (Ge & Lin 1993). Narayan and Reid (2002) commented that... 'detailed instructions replaced professional judgment in the accounts-preparation process and public accounting firms and the accountancy professions were unnecessary' (p. 2).

In summary, the priority in China in this period was the class struggle. The Country's economy was at stop. Accounting was based on Soviet accounting systems and accounting information and financial statements were not verified. Accounting education followed the Soviet method. Consequentially the accounting system in this

period only provided information to meet the central government's needs. Professional judgments were not required by the accountants and auditing profession did not exist. Thus auditors' ethical decision-making was not an issue in this period. In addition, Mao Zedong Thought and Marxist philosophy was the face of public morality and Maoists stressed that everyone should work diligently for the Party and receive similar rewards. Under these influences, people had no a motivation to make money. Chairman Mao was absolute law and everyone had to follow what they were told by the Party. Thus accountants were willing to obey the communistic party's laws in order to avoid any punishment.

3.1.2 Opening up China (1978 – 1990)

Mao Zedong died in 1976 and was replaced by Deng Xiaoping. Deng was influenced by western production systems and technology (Wu 2000). He opened the country to world trade. His philosophy was that it did not matter whether it is a black cat or white cat, as long as it catches mice it is a good cat (Wu 2000). He believed that success is determined by experiment and not by ideology (Wu 2000). Thus the Chinese economy began to change from a central command planned one to a market based one in 1978 (Narayan & Reid 2002). Deng's economic reform priorities were as follows:

First, university entrance examinations recommenced in 1977. Education was to be a vehicle for restoring the nation and boosting its economy. Thus accounting education was reintroduced into universities and colleges (Chen, Jubb & Tran 1997). The accounting curriculum was redesigned and Western accounting courses were incorporated into the Chinese accounting curriculum (Ge & Lin 1993). Moreover,

according to Lu (1997), the Department of Education mandated that socialist ethics be taught as a formal course by departments of philosophy at all universities from 1979. A National Society for Ethics Study was founded in 1980 and public morality was defined as Five Emphases: (1) decorum, (2) manners, (3) hygiene, (4) discipline, and (5) morality; Four Points of Beauty: beautification of (1) mind, (2) language, (3) behaviours, and (4) environment; and Three Loves: love of the (1) Party, (2) country, and (3) its people. However, Lu (1997) notes that business ethics was not defined in China so the curricula did not include any related concepts or issues.

Second, Deng took a confident pragmatic approach in the 1970s to open up trade to the outside world. The first legislation on foreign investment, *the Law of the People's Republic of China on Joint Ventures using Chinese and Foreign Investment* was enacted under the Chinese government's open-door policy by the National People's Congress (NPC) in 1979. In addition, the NPC passed *Regulations for the Special Economy Zone of Guandong Province* and designated Shenzhen as the Shenzhen Special Economic Zone (SSEZ) in the 1982.

Third, a combination of economic reform and joint ventures increased demand for competent accountants and the Accounting Profession and public accounting practices re-emerged. Accounting was reformed to service the economy's transition and encourage foreign investment by adopting the western (American) accounting model. The first accounting firm was established in 1981 as a subsidiary of a government organization in Shanghai (Narayan & Reid 2002). Its role was to provide accounting and auditing services for foreign investment companies. The central government's objectives for accounting reform were: (1) to standardize and

rationalise financial reporting, (2) to transit from the Soviet accounting model to the western (American) accounting model, and (3) to gradually give business enterprises more discretion in designing their own internal accounting and financial systems (Narayan & Reid 2002).

Fourth, the China National Audit Office (CNAO) was established in 1983 to lead, develop, and supervise an auditing profession for the public sector, state-owned enterprises, and domestic companies. The first Accounting Law: *Accounting Law of the People's Republic of China* was enacted in 1985 to standardise accounting behaviour (the Accounting Law 1985 Article 1). By 1988, the Ministry of Finance (MOF) established the Chinese Institute of Certified Public Accountants (CICPA) as a subsidiary. Its role is to supervise accounting firms' activities and implement the auditing practices within the private sector. Thus, apart from those accounting firms which provided public accounting services, 'auditing firms', funded by the CNAO, were used to provide auditing services for government enterprises and domestic companies.

In summary, the Soviet accounting system used in China was gradually replaced by the Western version to serve an emerging market based economy. Universities and colleges reintroduced accounting courses and accounting and auditing firms were established to provide services. The accounting law was enacted and accounting professional bodies were established to regulate accounting/auditing services. However, over 70 percent of accounting workers had no formal accounting training (Lu 1997) although accounting courses were being introduced in universities and colleges. The CPA qualification was based on evaluation criteria, which emphasized

work experience not qualifications. Most CPAs were retired government accounting or financial officers without an accounting degree.

Deng's open door policy gave Chinese people an opportunity to be rich. His philosophy contradicted Mao's rewards policy and changed Chinese people's attitudes towards money. Chinese auditors started to provide auditing services as the result of Deng's economic reform. However, there was no Code of Professional Conduct in this period, just an expectation that auditors would act morally. Their minds and attitudes towards the Party and laws were still same because auditors were retired government officers in this period.

3.1.3 Consolidating economic reforms (1990 – 2001)

The reform focus in the 1990s was on creating a banking system, establishing a Securities Exchange market, reforming the ownership of State Owned Enterprises' (SOEs), developing accounting/auditing information infrastructures, and improving accounting professional education.

First, the Shanghai securities exchange was established in 1990 and the Shenzhen Securities Exchange was established in 1991 (Ger & Lin 1993). In addition, many unprofitable State Owned Enterprises (SOEs) were closed down and the structure of SOE ownership was reformed into listed companies in the 1990s (Tai 2003).

Second, the creation of Stock Exchanges increased the number of listed companies which now required new legal infrastructures, regulatory frameworks, accounting and auditing standards, and an accounting profession. In 1992, the China Securities

Regulatory Commission (CSRC) was created. In the same year, the Ministry of Finance issued the first of the PROC's new Independent Accounting Standards based on the International Accounting Standard (IAS): *Accounting Standards for Business Enterprises No.1 – Fundamental Accounting Standards* and the CICPA issued the *Rules of Professional Ethics for Chinese Certified Public Accountants*. In 1993, the government passed the *Company Law* and the *Law of the People's Republic of China on Certified Public Accountants* (CPA Law) to regulate corporations' activities and protect investors' interests. Two standards, the *General Standard on Professional Ethics* and the *General Standard on Quality Control* were issued to improve the quality of public accounting services. In 1994, *Auditing Law* was proclaimed to strengthen the supervision of the State Auditing Profession. The CICPA issued the first set of *Independent Auditing Standards* in 1995 and the CNAO *Government Auditing Standards* in the same year. In 1995, the Ministry of Finance (MOF) and the CNAO reached an agreement to merge auditing firms into accounting firms (CPA firms) and certified public auditors into CPAs to stop the dual audits situation (Lin 1998). In 1998, the *Securities Law* was passed to regulate capital markets, trading activities and related matters and the China Accounting Standards Committee (CASC) was established to provide advice for the setting of accounting standards.

Third, accounting education was accelerated in this period. A nonprofessional accounting qualifying exam (the National Uniform Accountants (NUA) Examination) was held for people who sought accounting jobs (both in the public and private sectors). This qualification has four levels: Accounting technician, Assistant Accountant, Accountant, and Senior Accountant (Narayan & Reid 2002). In addition, a uniform CPA examination commenced in 1990. Thus, after 1991 all applicants for

CICPA membership were now required to have a Bachelor Degree in Accounting, pass the uniform CPA examination, and have at least three years work experience in the accounting or auditing professions. Continuing Professional Education became mandatory for all CICPA members to maintain membership under the *Certified Public Accountants Law*. Accounting firms and CPAs also had to be licensed to audit securities-related businesses. Moreover, the number of higher education institutions increased from 21 in 1978 to 537 in 1996 and the number of accounting students increased from 2,000 in 1978 to 125,980 in 1996 (Narayan & Reid 2002). Hence, there were 421 universities and colleges offering accounting degrees with 41,400 new students enrolling each year after 1993 (Chen et al. 1997). Some Colleges were also offering Accounting Diploma or Certificate courses. Apart from these accounting courses, a few universities offered Business Ethics courses and accounting/auditing firms started to conduct professional ethical training programs.

Fourth, accounting reform focused on how to improve audit independence and the credibility of financial information. By the end of 1996, all accounting and auditing firms were funded by government departments or institutions. DeFord et al. (2000) note that the most significant threat to auditor independence in China was government ownership of clients and their auditors. A CICPA survey, conducted in 1997, showed that 54% of respondents indicated that their businesses were interfered with or influenced by government (Yang et al. 2001). The CICPA then conducted a disaffiliation program (Yang et al. 2001), and a Rectification Campaign to reform the structures of CPA firms. By the end of 1998 almost all accounting and auditing firms providing auditing services for listed companies had been disaffiliated (Yang et al. 2001). The structural reform of these firms was completed by the end of 1999 and the

number of firms fell from 6,045 to 4,805 (Narayan & Reid 2002). All of these firms were financially and operationally independent. Yang et al. (2001) confirm that the number of qualified audit opinions increased significantly after the disaffiliation program in 1997. Apart from the disaffiliation program, the Rectification Campaign forced 12,700 individual CPAs and 580 CPA firms from the profession due to instances of fraud and misconduct in providing professional services (Narayan & Reid 2002).

In summary, the development of the securities market and the reform of ownership of State Owned Enterprises (SOEs) forced the CICPA and the CNAO to issue IAS-based accounting and auditing standards. In addition, accounting and auditing firms were merged and disaffiliated from governments and accounting professionals' qualifications were regulated. Moreover, business ethics education was offered in some universities and colleges to improve ethical awareness. However, Deng's proclamation that 'to get rich is glorious' in the 1990s brought a new market ethic that the pursuit of profit as the primary goal of business was good (Whitcomb, Erdener & Li 1998). Corruption, stock market manipulation, tax cheating, fraudulent dealing, and audit independence were the business ethical issues which concerned the public.

Continuing economic reform created a new business culture which impacted on Chinese people's attitudes towards money and auditors' ethical judgments. The collapse of the biggest listed company, *Shenzhen Yuanye Corporation* in 1993 is a example. This scandal involved similar circumstances to those of Enron including fraudulent accounting and over-inflating profits (Dayasena 2003). In the same year,

the *Shenzhen Special Economic Zone Certified Public Accountants*, one of the biggest accounting firms in China and the auditor of *Shenzhen Yuanye Corporation* collapsed. This scandal also involved similar circumstances to those of the biggest accounting firm, Arthur Andersen including corruption and bribery between auditor and its client. Thus the consequences of economic reform suggest that Chinese people's attitudes towards the laws and standards were changing from absolutely obey them to seek any opportunities to increase personal wealth.

3.1.4 Continuing economic reforms from 2001 to the present

After entry into the World Trade Organisation (WTO) in September 2001, China's international opportunities expanded further. This period is regarded as the second economic policy regime after Deng's reform and open-door policy in 1978 (Lin 2001). The Chinese government is taking steps to build new business infrastructures based on accountability and corporate governance.

First, the Chinese government provided large-scale training and continuing education for senior public and private sector accountants and finance managers in order to upgrade their professional qualifications. The first National Accounting Institute (NAI) was established in Beijing in 2000 to provide this training and study (Narayan & Reid 2002). By the end of 2004, another three NAIs were established in Shanghai, Xiamen, and Guanzhou.

Second, in 2001, the MOF implemented a comprehensive Accounting System for Business Enterprises (ASBE) and an Accounting System for Financial Institutions (ASFI) to improve financial reporting by business enterprises. These standards are

modelled on International Accounting Standards (Parrett 2004). Pacter and Yuen (2001) observed that the ASBE was now...‘a comprehensive financial reporting framework that covers concepts, definitions, standards, presentation, and record-keeping’ (p. 1). The implementation date for the ASBE for all State Owned Enterprises was 2005.

Third, the number of international accounting firms and international accounting professional bodies setting up branches in China has increased in recent years. China’s auditing market was regarded as a driver of fee growth for local and international accounting firms. According to Dayasena (2003), accounting revenues increased only one percent in the US and four percent in the UK in 2002 due to a global economic slowdown, war, and a tighter post-Enron regulatory environment. In contrast, international accounting firms’ revenues in China increased by 43.6 percent in the same year. In addition, professional bodies like Britain’s Association of Chartered Certified Accountants, CPA Australia, and the Certified General Accountants of Canada established offices in China and opened their CPA examinations to Chinese candidates. By the end of 2004, these three professional bodies accredited 1,500, 728, and 400 Chinese members respectively (People’s Daily Online December 2004).

Fourth, the Chinese government has included audit independence on its economic reform agenda. For example, in 2002, at the 16th World Congress of Accountants, the former premier Zhu Rongji in a speech in Hong Kong stated that Chinese accountants should...‘strictly observe the principles of independence, impartiality and fairness and never succumb to unwarranted demand’ (cited in Parrett 2004). In

addition, in response to accounting scandals in China and the world, the CSRC adopted a new auditor rotation requirement effective from 2004 (Pacter & Yuen 2001). Under this rule, an individual CPA who has signed an audit report and the person in charge of the audit must rotate off the audit of a listed company after five years.

In summary, membership of the WTO emphasised to the Chinese government the need for accountability and corporate governance, that accounting and auditing systems must be transparent. Audit independence and integrity are basic principles for them to provide professional services. However, ‘...poor corporate governance, high levels of fraud, insufficient financial disclosure, and bad accounting practices’ have caused investors to lose a lot of money and to lose confidence in financial information which is verified by auditors (Wyatt 2005 p. 51). Chinese people who enjoy economic freedom and seek maximum profits are threatening professionals’ independence and integrity although Chinese governments have put the reform of accountability and corporate governance at the top agenda of governments. Company auditors’ ethical decision-making is a crucial step in maintaining audit independence. Whether auditors should accept a client’s suggestion to alter the financial position or comply with professional standards is a common ethical dilemma experienced by auditors in today’s auditing profession. It is also a particular issue representing the central focus of this study.

3.2 Chinese auditing environments

China’s auditing organizational framework includes governmental, internal, and public institutions (Cooper, Chow & Wei 2002) and auditing systems includes

governmental auditing, internal auditing, and public auditing (social auditing). The auditing environment discussed in this Chapter is the public auditing environment. This section discusses the Chinese public auditing environments, which includes China's auditing legal and regulatory frameworks, auditors' qualifications, legal liabilities, and professional ethics.

3.2.1 Legal and regulatory framework for public auditing

Accounting regulation in China has a three-level legislative and administrative framework, (1) the National People's Congress (NPC), (2) the State Council (SC), and (3) various commissions, ministries and state agencies (Huang & Xun 1997). The NPC is the supreme law-making body and the SC is the highest organ of state administration (Huang & Xun 1997). Both of them have the legislative power to issue laws and regulations. For example, the *Accounting Law of the People's Republic of China* (Accounting Law) (1985) and the *Law of the People's Republic of China on Certified Public Accountants* (CPA Law) (1993) were issued by the NPC.

The Department of Administration of Accounting (DAA), one department of the Ministry of Finance (MOF), is charged with administering accounting affairs and accounting development and issuing accounting rules and regulations. The Ministry of Finance delegates administrative responsibility to the Chinese Institute of Certified Public Accountants (CICPA) for the regulation of the Accounting Profession. The CICPA's responsibilities include the registration of certified public accountants (CPAs) and CPA firms, the conduct of professional examinations, and the management of training programs, formulating and implementing codes of CPA ethics, and developing auditing standards. The CICPA conducts its operations in

accordance with the *CPA Law* and the *CICPA Charter*. The Charter was issued under the *CPA Law*. It specifies the objectives and functions of the CICPA i.e. it sets out the structure of the Institute's membership, management and members' rights and duties.

Figure 2 shows the regulatory framework for Chinese public auditing.

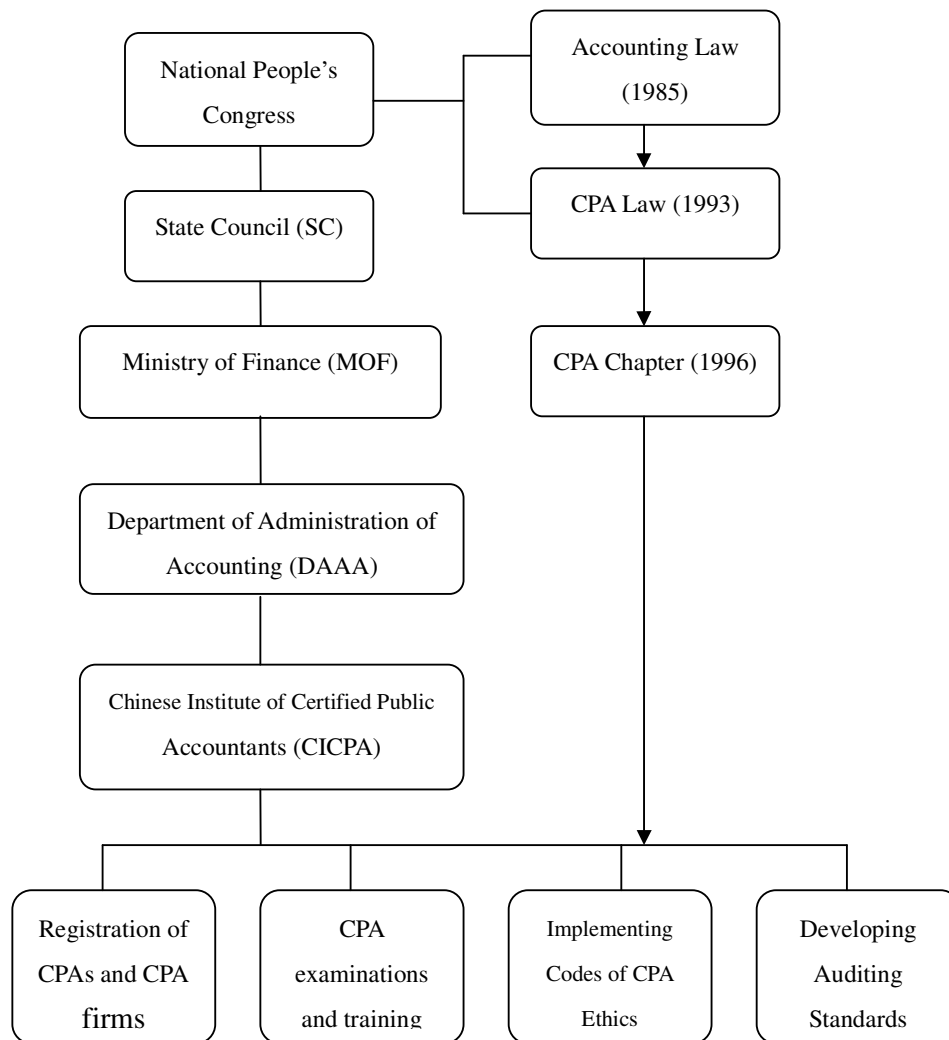


Figure 2: The Chinese Regulatory Framework for Public Auditing

3.2.2 Auditing standards

Chinese auditing standards include Independent Auditing Standards (CIASs) and other standards. The former are drafted by the CICPA and approved and issued by the Ministry of Finance (Cooper et al. 2002). All members of the CICPA must observe these standards in conducting their professional services. These standards operate at three levels: (1) general independent auditing standards, (2) specific (independent) auditing standards, and (3) independent auditing practice pronouncements. General independent auditing standards are concerned with the basic principles governing CPAs' audit practice. Specific (independent) auditing standards require auditors to comply in their conduct with professional services in specific areas. Independent auditing practice pronouncements provide guidelines for performing audits for specific industries or businesses (Cooper et al. 2002). By the end of 2003, there were 28 specific standards and 10 practice pronouncements.

Apart from the above independent auditing standards, the CICPA has also issued four general standards to regulate their members, (1) *General Standard on Professional Ethics* (1996), (2) *General Standard on Quality Control* (1996), (3) *General Standard on Professional Continuing Education* (1996), and (4) *Practice Guidelines on General Standards of Professional Ethics* (2003). A profile of Chinese auditing standards is shown in Figure 3.

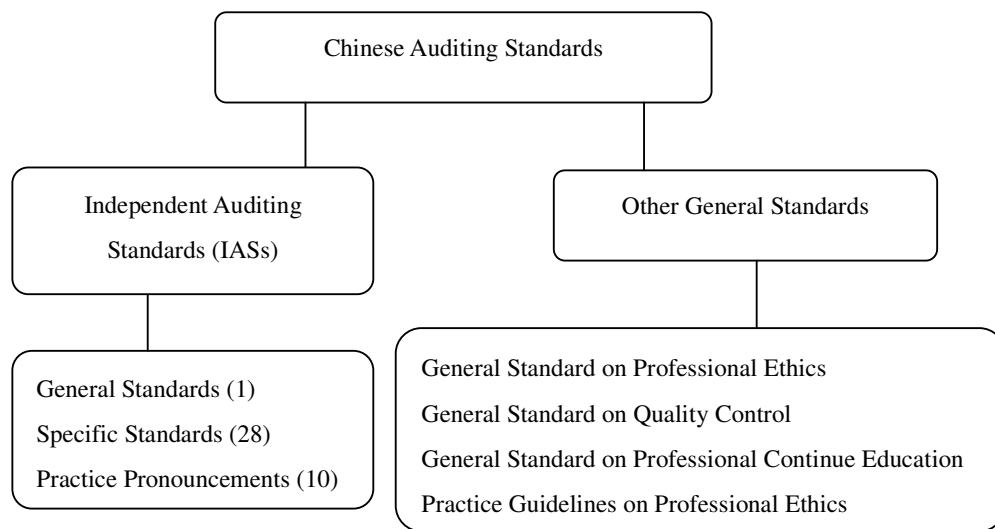


Figure 3: A Profile of Chinese Auditing Standards

3.2.3 Auditors' qualifications and licensing requirements

Chapter II of the CPA Law sets out the registration requirements for individual practitioners. Individual membership is divided into two categories, non-practising members (Associate members) and practicing members (CPA members). For an individual to be granted a non-practising certificate, he/she must be a member of an accounting firm or work for an organization in accounting/auditing (or relevant area) and possess a university degree. For an individual to become a CPA member, he/she must meet the above education requirements and also pass the national CPA examination and have two years or more work experience in public auditing. In addition, those personnel who are engaged to provide professional services for listed companies should pass the qualifying exam and they must have a crime free and no administrative punishment record.

In order to maintain membership, all members in obliged to enroll in the continuing

professional education (CPE) program to update his/her professional knowledge. Each member must complete a minimum of 40 hours per year or 180 hours study over three years to maintain membership. The CICPA organizes annual training courses to help its members to complete their studies.

3.2.4 Auditors' legal liabilities

The first auditors' legal liability imposed in China was in 1993 after the collapse of the *Shenzhen Yuanye Corporation* and the *Beijing Changchen Corporation* (Xu, Xie & Hu 1997). The *Shenzhen Special Economic Zone Certified Public Accountants*, one of the biggest accounting firms in China collapsed when the *Shenzhen Yuanye Corporation* failed. Chinese auditors' legal liabilities include administrative, civil, and criminal liabilities. Administrative liabilities are imposed by governments or CICPA for fraud or other irregularities which result directly in financial losses to other parties (Cooper et al. 2002). For example, disciplinary sanctions in the *CPA Law* (1993) include warnings, suspension from professional activities and withdrawal of CPA certification (Article 39).

Civil liabilities include breach of contract and negligence liabilities governed by the *Civil Law* and *CPA Law*. For example, Articles 16 to 20 of the *CPA Law* impose civil liabilities on auditors who undertake professional activities. Article 42 states that an accounting firm is liable to compensate its clients for any financial loss resulting from violating any regulation imposed under the *CPA Law*.

Auditors' criminal liability occurs when they falsely produce audit reports or capital verifications (Cooper et al. 2002). The first criminal liabilities for the CPA are

stipulated in Article 6 of the *National People's Congress' Decisions for Breach of the Company Law* (Narayan & Reid 2002). Article 6 states that auditors can be sentenced to a maximum of five years' imprisonment and incur fines of up to RMB 200,000 if they provide a false audit report (Narayan & Reid 2002). The *Criminal Law* and *Securities Law* also stipulate CPA criminal penalties (see Narayan & Reid 2002; Xu et al. 1997).

3.2.5 Professional ethics (the Code of Professional Conduct)

The purpose of a Code of Professional Conduct is to guide and establish high professional standards and encourage high ethical standards in business (Finn, Chonko & Hunt 1988). The Chinese Code of Professional Conduct titled *General Standards of Professional Ethics* (GSPE) was issued in accordance with *the Law of the People's Republic of China on Certified Public Accountants* (CPA Law) in 1993. It provides controls to ensure a high quality of accounting and auditing professional services and a standard which Chinese auditors must comply with when making ethical decisions. Its formulation and implementation is supervised by the CICPA. The GSPE has six Chapters and 30 Articles. The details of GSPE are shown in Table 5.

Table 5
The General Standards of Professional Ethics (GSPE)

	Content
Chapter I	Provides a general standard and requires all CPAs to observe it (Articles 1 to 3).
Chapter II	Provides the core of the standard which includes seven Articles concerned with audit independence. It requires all CPAs to remain independent in fact and appearance (Article 4) and states that all CPAs should be independent and objective, demonstrate integrity, and be fair in performing professional services (Article 5). They should also avoid any activities which could impair audit independence, like for example, developing too close a relationship with clients or undertaking/accepting client employment positions (Articles 6 to 8). Specifically, professional judgments and decisions should not be influenced by others (Article 9).
Chapter III	Provides CPAs' professional competence and duty of care requirements (Article 11 to 17). Chapter IV is concerned with CPAs' responsibilities to their clients particularly in respect of the confidentiality of their financial information (Articles 18 to 21).
Chapter V	Is concerned with CPAs' responsibilities to colleagues i.e. they should co-operate with other firms' CPAs and not do anything that could damage their interests (Articles 22 to 25)
Chapter VI	Is concerned with CPAs' other responsibilities i.e. to ensure their professional reputation by maintaining honesty and not paying commissions to acquire businesses (Articles 26 to 30).

Jakubowski et al. (2002) compared the Codes of Professional Conduct of certified/chartered accountants across eight countries and regions including Hong Kong and Taiwan. Results indicate that the rules relating to independence, objectivity, and conflicts of interest are similar across these countries. However, countries like the U.S., Canada, and Australia are more likely to use explicit language in the Code of Professional Conduct whereas countries like South Korea, India, Malaysia, Hong Kong, and Taiwan are less explicit in formulating their professional codes (Jakubowski et al. 2002). The authors used Hall's (1976) low and high context countries' classifications to explain the differences. The low context countries like

U.S., Canada, and Australia, pay more attention to the verbal content of a message whereas the high context countries like South Korea, India, Malaysia, Hong Kong, and Taiwan are more concerned with the context and less with verbal message (Jakubowski et al. 2002). China's position is similar to that of Hong Kong and Taiwan. It represents a high context culture and its Code of Professional Conduct focuses on general rules.

In 2003, the CICPA issued *Practice Guidelines on General Standards of Professional Ethics* to provide detailed guidelines to assist CPAs in performing professional services. However, it contains less explicit information compared to those of advanced countries and the International Federation of Accountants' (IFAC) Standard – *Code of Ethics for Professional Accountants*. One implication of less information in the Code is that auditors can rely more on their personal values and other factors in making an ethical decision.

Conclusion

This Chapter reviewed China's economic reform and currently Chinese auditing environments. Economic reform changed Chinese people from absolute obedience of the Party to one of enjoying more economic freedom. The consequences of economic reform gave Chinese people more opportunities to be rich but also created ethical issues in Chinese business today. Auditors' ethical decision-making was questioned by the public as a number of Chinese big listed companies collapsed. Corruption and bribery are the major issues which concerned the public and are a threat to auditor independence. A number of accounting/auditing standards and the Code of Professional Conduct were issued to regulate accounting/auditing services and

professionals' behaviours when they conduct these services. The reform of accountability and corporate government are now the top of agenda of Chinese governments. Auditors' integrity is emphasised for maintaining audit independence. CPA membership is also required for people who want to conduct auditing professional services.

A review of Chinese economic reform and auditing environment suggests that companies' auditors' play a crucial role in maintaining audit independence and their ethical decision-making is the important step to achieve this objective. It is also a major focus of this study. As discussed in Chapter 1, ethical decision-making is influenced by many factors including personal values and external influences. Chapter 2 and this Chapter focused on external influences on auditors' moral philosophies and ethical decision-making. The discussion of the influences of personal values, in particularly personal ethical ideologies on ethical judgments will be provided in the following Chapter.

Chapter 4

Ethical Ideologies and Ethical Decision-making

This study is concerned with Chinese auditors' values and how these value judgments influence the way they apply ethical principles to solve ethical problems in the conduct of their professional work. Hunt and Vitell (1986) propose that an individual's ethical judgments are a function of his/her deontological and teleological evaluations while national cultures, professional environments, and personal factors influence the individual's moral philosophy and decision-making. Forsyth (1980; 1992) argues that the key concepts which explain individuals' moral philosophies are relativism and idealism. Chapters 2 and 3 discussed Chinese auditors' cultural values, China's economic reform, and currently Chinese auditing environments. The objective of this Chapter is to review the effects of ethical ideologies on ethical decision-making. Part 1 reviews and examines existing definitions of morality, ethics, and values to identify the definitions for this study. Part 2 overviews ethical theories and focuses on ethical ideologies. Part 3 reviews empirical studies about ethical ideologies and ethical decision-making.

4.1 Definitions of morality, ethics and values

4.1.1 Morality

According to the *Oxford Learners' Pocket Dictionary*, morality is a set of ...'principles of good or right behaviour' or...'a particular system of morals' (2000, p. 269). It is described as...'a public system applying to all rational persons governing behavior which affects others' (Gert 1988 p. 6). Baron (1993) defines morality as a body of advice or a set of standards which people get each other to

follow when they make decisions. It provides the basic guidelines for settling human conflicts (Rest et al. 1986) or...‘sets the boundaries of acceptable behaviour’ (Hinman 1994 p. 4). It is concerned with the rules, standards, or principles which should guide people’s decisions about what they ought to do and what they ought not to do (Singer 1994; Hinde 2002) or the standards that people hold about what is right and wrong, or good and evil (Velasquez 1998; Hinde 2002).

Morality is based on the principles of justice (Lickona 1976), impartial considerations, and good reasons (Velasquez 1998; Rachels 1999). It can be defined either descriptively or normatively (Gert 2002). A descriptive definition of morality claims that there is...‘an actually existing code of conduct put forward by a society’ (Gert 2002 p. 1) which is...‘used as a guide to behaviour by the members of that society’ (Gert 2002 p. 2). Rest (1986) asserts that...‘morality is rooted in the society condition and human psyche’ (p. 1). It varies greatly from society to society and culture to culture. For example, earning interest is immoral in the Islamic culture but is normal business practice for most other cultures (Deegan 2006). Confucianism treated merchants as the lowest class on the social ladder in Chinese history, but ‘being rich is glorious’ is a modern moral objective for today’s Chinese people.

A normative definition of morality states that...‘morality in the normative sense does not have any referent’ (Gert 2002 p. 4) but...‘there is a universal morality that is a code of conduct that all rational persons would put forward for governing their behaviour’ (Gert 2002 p. 4). Normative morality does not make empirical claims about morality but makes claims about...‘what is essential to morality’ (Gert 2002 p. 4). It does not focus on what is happening or being practiced; the aim is to determine

what ought to be done (Leung & Dellaportas 2002). Absolute moral rules or universal laws are concerned with normative morality promoted by philosophers like Kant (1724 – 1804). Kant posited that...‘morality is a matter of following absolute rules – rules that admit no exceptions’ (Rachels 1999 p. 122). For example, Kant claimed that lying is always wrong no matter what the circumstances and what the outcomes. Thus the difference between descriptive morality and normative morality is that descriptive morality maintains that moralities can differ from one society to another whereas normative morality focuses on a universal morality which people in all societies should use to guide their behaviours.

4.1.2 Ethics

Most philosophers contend that ethics is not the same as morality. Ethics is...‘the study of morality’ (Velasquez 1998 p. 7), or the...‘study of morals’ (Oxford Dictionary 2000 p. 141). It is also called...‘moral philosophy’ (Singer 1994 p. 4). It is...‘the systematic study of reasoning about how we ought to act’ (Singer 1994 p. 4) or a kind of investigation or activity for examining people’s or society’s moral standards in order to...‘determine whether these standards are reasonable or unreasonable’ (Velasquez 1998 p. 12). It involves moral judgments which apply moral principles in ethical (dilemma) issues. Thus, ethics...‘are the standards by which behaviours are evaluated as to their morality’ (Shockley-Zalabak 1988 p. 326). It...‘concerns the philosophical reasons for or against the morality stipulated by society’ (Beauchamp & Bowie 1997 p. 2). Ethics is looking for questions like, what is the right thing to do and what is the meaning of good and right? It can be divided into metaethics, normative ethics, and practical or applied ethics (LaFollette 2000).

Metaethics is the study of...‘the nature and status of ethics’ (LaFollette 2000 p. 2) or concerned with...‘the essential nature or ontological status of ethical concepts’ (Baker 1999 p. 117). It...‘implies that we are not taking part in the practice of ethics itself, but are reflecting on that practice’ (Singer 1994 p. 10). It is concerned with such questions as where ethics comes from and the meaning of ethical principles. Ancient philosophers like Socrates (469 – 399BC) and Plato (427 – 347BC) studied ethics in the metaethics sense. They studied the origins of ethics (Singer 1994), the status of ethics and the grounds for ethical claims (LaFollette 2000).

Normative ethics...‘seeks to influence our actions’ (Singer 1994 p. 10). It is the study of moral principles which tell us right from wrong, good from bad, or what we ought to be and what we ought to do. It is...‘primarily concerned with establishing standards or norms for conduct’ (Baker 1999 p. 118). Examples of normative ethics include Kant’s deontological ethics (1742 – 1804), Bentham’s (1748 – 1832) and Mill’s (1806 – 1873) utilitarianism, and Aristototele’s virtue ethics (384 – 322BC) (Lueng & Dellaportas 2002).

Applied ethics uses normative ethical principles in specific areas. Business ethics is an example of applied ethics. Examples include the study of the accountants’ Code of Professional Conduct which guides accounting professionals’ practices, or an examination of auditors’ ethical decision-making in an auditing context which identifies their positions on moral issues. Applied ethics, in a business context, seeks ethical standards or principles to guide business professionals’ decisions about what they ought to do.

4.1.3 Values

Value is defined as...‘any object or quality desirable as a means or as an end in itself’ (*Macquarie Australia's National Dictionary* 1982 p. 126). Morris (1973) asserts that the meaning of value is multiple and complex. Various authors divide values according to different theoretical criteria, for example, Morris’ (1973) operative, conceived, and object values, Rokeach’s (1973) terminal and instrumental values, and Najder’s (1975) quantitative, attributive and axiological values.

4.1.3.1 Morris’ value definitions

Morris (1973) defined values in three ways (1) operative values, (2) conceived values, and (3) object values. Operative values...‘refer to the tendencies or dispositions of living beings to prefer one kind of object rather than another’ (Morris 1973 p. 10). They focus on a value as preferred (or desired) (Morris 1973) and choice between alternatives. Operative values answer questions like, what is preferred? Hofstede (1980) also defines value, as...‘a broad tendency to prefer certain states of affairs over others’ (Hofstede 1980 p. 19).

Conceived values are...‘restrict [ed] to those cases of preferential behaviour directed by an anticipation or foresight of the outcome of such behaviours’ (Morris, 1973, p. 10). They focus on value as a conception of the preferable answer/s to questions about what is conceived to be preferable. This definition is consistent with Kluckhohn’s (1951) definition that a value is...‘a conception, explicit or implicit, distinctive of an individual or characteristic of a group, or the desirable which influences the selection from available modes, means and ends of actions’ (p. 395). Kluckhohn (1951) points out that a value is a conception of the preferable, not

something merely desired. Hofstede (1980) explains that the difference between the preferred (or desired) and the preferable (or desirable) is that the preferred refers to what people actually desire whereas the preferable refers to what they think ought to be desired.

Object values...‘are concerned with what is preferable (or desirable) regardless of whether it is in fact preferred or conceived as preferable (Morris 1973 p. 11). They focus on a value as the preferable (or the desirable) (Morris 1973) and answer questions about what ought to be preferable or desirable.

4.1.3.2 Rokeach’s value definitions

Rokeach (1973) concluded that there are two ways to study the value concept, (1) that a person has a value or (2) that an object has a value. He argued that it is more useful to study a person’s value in social analysis than to study the values that objects have. He asserts that a value is an enduring belief and is a conception of the preferable. He identified two kinds of values, desirable modes of conduct and desirable end-states of existence. Thus he defined a value as...‘an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence’ (Rokeach 1973 p. 5). He refers to modes of conduct as terminal values and to end-states of existence as instrumental values.

Shockley-Zalabak (1988) explains that terminal values are...‘concern[ed] for end states of existence or desirable goals, while instrumental values are desirable behaviours or modes of conduct that relate to and influence terminal values’ (p. 321).

For example, if someone wants to have a successful life then he/she will likely choose to be ambitious and work hard. A successful life is a terminal value while to be ambitious and work hard is an instrumental value in this example. This definition is consistent with Morris' (1973) conceived values definition. Terminal values include personal and social values. Personal values have a self-centered focus whereas social values have a society-centered focus. Instrumental values include moral values and competence values. Moral values stress modes of behaviour but are not necessarily concerned with end-states of existence whereas competency values focus on personal adequacy (Rokeach 1973).

4.1.3.3 Najder's value definitions

Najder (1975) asserts that values can be defined in three basic senses: (1) quantitative values, (2) attributive values, and (3) axiological values. A quantitative value is... 'what a thing is worth; something translatable into or expressible by some units of measurement or comparison, frequently definable numerically' (Najder 1975 p. 42). It... 'exist[s] in the same way as do kilograms, pence, coefficients of expansibility, and technical parameters' (p. 48). Value defined in the quantitative sense... 'is not bound to any particular theory but is a semantically independent unit' (Najder 1975 p. 43). For example, when we say the value of this book is fifty dollars then we define value in a quantitative value sense.

An attributive value is... 'a valuable (a) thing or (b) property (quality); something to which valuableness is ascribed' (Najder 1975 p. 42). It exists in the way that objects or properties do (Najder 1975). For example, when we say that the value of this house lies in its style of design then we define value in the attributive sense. It

considers value in qualitative ways.

An axiological value is...‘an idea which makes us consider given objects, qualities, or events as valuable’ (Najder 1975 p. 42). It ‘exists in the manner of law and principles of science’ (Najder 1975 p. 48). When values are defined in the axiological sense, we often use...‘a certain idea, principle, or criterion to evaluate particular occurrences, objects, and properties (Najder 1975 p. 45). For example, if our principles about auditors’ opinions of the financial statements are independent and objective then we believe that these are values. Thus values in the axiological sense are related to terms such as...‘rule, principle, law, explication, and justification’ (Najder 1975 p. 63). These values are concerned with states of affairs and types of behaviour (Najder 1975 p. 65).

In summary, ethical principles are guidelines for people’s decision-making, whereas knowing a person’s values provides a reasonable idea of the kind of decisions or actions that he/she would make or take. A person uses ethical judgments as a representation about what is right or wrong whereas value is a person’s measure of importance (ethical or otherwise) (Shockley-Zalabak 1988). A norm is consensual and external to the person whereas value is more personal and internal and a guide to conduct in a variety of ways, (Rokeach 1973). Thus value has a strong motivational component and influences a person’s behaviours (Rokeach 1973). It is...‘what makes something desirable or undesirable’ (Shockley-Zalabak 1988 p. 316) and a broad tendency to prefer certain states of affairs over others (Hofstede 1980). It serves...‘as standards that guide ongoing activities’ and ‘as general plans for conflict resolution and decision making’ (Rokeach 1973 p. 12, 14). It also serves...‘as guiding

principles in the life of a person or other social entity' (Schwartz 1994 p. 21). It is regarded as... 'part of a complex of attitude sets that influence our behaviours' (Shockley-Zalabak 1988 p. 317). Smith (1977) asserts that... 'people act according to their values and their values give direction to their lives' (p.10).

The objective of this study is to investigate Chinese auditors' ethical decision-making. Thus the factors that influence Chinese auditors' ethical decision-making are focused on their values because values are the motivations behind decision-making and behaviours. Najder's (1975) axiological definition, Morris' (1973) conceived values definition, and Rokeach's (1973) terminal and instrumental definitions are consistent. Chinese auditors' values are defined in this study in Najder's (1975) axiological sense, Morris' (1973) conceived value aspects, and Rokeach's (1973) terminal and instrumental definitions. Thus the focus of attention for this study is on investigating the relationships between auditors' beliefs (values) and their preferred alternatives and actions when they encounter an audit-client conflict situation.

4.2 Normative ethical theories

Baker (1999) asserts that theoretical approaches for ethics research in accounting have both epistemological and normative dimensions. The epistemological dimension focuses on... 'how a person comes to know about an ethical question' (Baker 1999 p. 118) while the normative dimension is concerned with questions like... 'how a person determines the quality of the ethical act' (Baker 1999 p. 118). The underlying assumption of the epistemological dimension is whether the ethical decision is made by an individual acting alone or whether it is determined by social and historical factors (Baker 1999). The principle of the normative dimension is

concerned with whether...‘the quality of the ethical decision is determined by universal principles or whether it is determined by the consequences of the action’ (Baker 1999 p. 130). Thus the normative dimension of ethics is concerned with...‘standards or norms of conduct’ and...‘associated with general theories about how a person should live or behave’ (Baker 1999 p. 118). It is a kind of ethical theory which...‘proposes a course of questions that are usually represented by a value judgment on what *should* or *ought* to be done’ (Leung & Dellaportas 2002 p.1.32).

In general, normative theory is classified into two broad approaches: the teleological and the deontological (Baker 1999; Leung & Dellaportas 2002). The terms teleological and deontological are defined in the next section.

4.2.1 Teleology

Teleological theory determines...‘right from wrong, or good from bad based on the results or consequences of the decision or action’ (Leung & Dellaportas 2002 p. 1.33). The effects of ethical acts and decisions are the primary concern under teleological theories (Baker 1999). The amount of good or bad embodied in the consequences of behaviour is the key issue (Hunt & Vitell 1986). The costs and benefits evaluation connected with an action is the principle which determines whether that action is ethical or unethical under teleological theory (Leung & Dellaportas 2002). If the benefits of the actions are greater than the costs of the actions, then those actions are considered to be ethically sound. Thus even though such actions harm some people they can still be ethical as long as the positive outcomes of actions outweigh the negative (Barnett, Bass & Brown 1996).

Teleological theory can also be classified into ethical egoism and utilitarianism (Leung & Dellaportas 2002). An ethical egoist determines good from bad or right from wrong based on whether the action or decision maximizes the positive benefits to oneself. Utilitarian reasoning on the other hand, assesses good from bad or right from wrong based on the notion that the actions or decisions made produce the greatest benefits to the greatest number of people. The works of Mill (1784-1832) and Bentham (1806-1873) in the nineteenth century represent the utilitarian view.

4.2.2 Deontology

Deontological theory binds society to a duty to obey those moral rules about right and wrong which are generally based on principles of justice and respect for individuals' rights (Leung & Dellaportas 2002). It attempts to determine the content of duty without considering the consequences of particular ways of acting (Macdonald & Beck-Dulley 1994). Righteousness of behaviour is the key issue in deontological theory (Hunt & Vitell 1986). It is also a belief in moral absolutes, or universal truths (Forsyth 1980; Redfern & Crawford 2004). Deontology is... 'generally an idealistic philosophy, in that it ultimately concerns the welfare of individuals, treating each person as an end and not a means to an end' (Barnett et al. 1996 p. 1163). Kant's categorical imperative or universalism principle is an example of deontological ethical theory. His philosophy is fundamentally based on 'good will' which means... 'acting out of respect for the moral law, i.e. for the sake of duty' (cited in Macdonald & Beck-Dudley 1994 p. 617). Although Aristotle's ethical theory... 'emphasized [that] the ultimate goal of ethical behaviour is happiness'

(Baker 1999 p. 118), he also...‘stressed that the proper means to achieve happiness was through cultivation of the virtues’ (Baker 1999 p. 118).

4.3 Ethical ideologies

Hunt and Vitell (1986) developed a general theory of ethics to guide empirical research in relation to marketing ethics. They proposed a model to explain the decision-making process in situations involving an ethical problem. Their model follows Rest’s (1979) four components process (Douglas & Schwartz 1999; Cherry Lee & Chien 2003) i.e., the model posits that before making an ethical judgment, an individual must perceive some ethical issue in an ethical problem situation and speculate about the various possible alternatives and consequences. Ethical intention follows ethical judgment and these influence ensuing behaviour. Their model also postulates that an individual’s ethical judgments are a function of his/her deontological and teleological evaluations (Hunt & Vitell 1986).

Deontological and teleological evaluations are the core of Hunt and Vitell’s general theory of marketing ethics. However, prior studies have found that it is difficult for individuals to apply deontological and teleological norms in making a decision. Reidenbach and Robin (1988) found for example that individuals...‘do not use clearly delineated concepts of ethical philosophy in making ethical judgments of marketing activities’ (p. 878). Their studies also suggest that the evaluations...‘can be measured using the concepts derived from the different moral philosophies including relativism, egoism and justice theories’ (p. 878). The Mayo and Marks’ (1990) study also had a problem in measuring some constructs, including deontological and teleological evaluations. Hunt (1990) explained that deontological

and teleological evaluations should be viewed as processes not constructs. He also pointed out that empirical research should be inferred, not directly measured.

Forsyth (1980; 1992) argues that the key concepts which explain individuals' moral philosophies are relativism and idealism. His ethical ideologies were derived from deontological and teleological moral theories and consist of a personal value system which describes an individual's beliefs about ethical principles (Douglas & Schwartz 1999). He also supports the descriptive approach to ethics, by assuming that changing circumstances can alter one's frame of reference and the ethicality of a given situation or judgement (hence justifying the use of relativism). Thus he developed a 20-item Ethics Position Questionnaire (EPQ) to assess individuals' moral type along relativist and idealist dimensions.

Barnett et al.'s (1994) overview of normative research concluded that prior studies suggest that... 'few individuals are strict teleogists or deontologists' (p. 471). They assert that individuals find it hard to use traditional ethical theory in solving practical ethical dilemmas in business situations (Barnett et al. 1994). They also claim that deontology is generally an idealistic philosophy while teleology is a pragmatic one. Schlenker and Forsyth (1977) suggest that changing circumstances cause some individuals to vary in their moral beliefs and attitudes, meaning that they may reject conformity with universal moral rules (termed idealism) in favor of some alternative judgement (termed relativism). The Vitell, Rallapalli and Singhapakdi (1993) study found that deontological norms are positively correlated to idealism and negatively correlated to relativism. Barnett et al.'s (1998) study suggests that ethical ideology is very useful for testing theoretical models in business ethics including Hunt and

Vitell's (1986; 1993) general theory of marketing ethics. A number of empirical studies about ethical decision-making have provided evidence that individuals' ethical ideologies directly influence their ethical judgments and decision-making (see Chapter 4). For these reasons, Forsyth's (1980) ethical ideologies, idealism and relativism, are more appropriate for this study. Thus this section reviews Forsyth's (1980) ethical ideology theory and the effects of cultural values on ethical ideologies and the effects of ethical ideologies on ethical decision-making.

4.3.1 Ethics position questionnaire (EPQ)

Forsyth (1980) suggests that an individual varies his/her moral beliefs and attitudes, that is, either that he/she makes judgments based on universal moral rules or rejects universal moral principles in favour of relativism. Therefore, Forsyth classified an individual's ethical ideologies in two dimensions: idealism and relativism. Idealism identifies with a concern for the welfare of others and avoids those negative consequences which may harm others (Forsyth 1992) but relativism is concerned more with the results or consequences of actions and given situations. Thus an idealistic person makes an ethical judgment based on universal moral rules and a principle of no harm to others, whereas a relativist makes an ethical judgment based on personal feelings and situations.

Forsyth's Ethics Position Questionnaire (EPQ) (1980) was developed through three stages. First, the original scale included 55 items of ethical ideology, measured on a 9-point Likert scale. Responses ranged from completely disagree (1) to completely agree (9). Sixty-five students participated in the survey. A correlation and principal components factor analysis yielded 16 factors. Twenty-seven questions were selected

based on the results of stage one. Fourteen questions were selected for the idealism scale and thirteen were selected for the relativism scale. Second, 462 students were administered the survey to test these items again. Those items which...‘significantly reduced the internal consistency of the scales or were frequently judged as ambiguous by respondents’ (Forsyth 1980 p. 179) were deleted thereby yielding the final version of the EPQ which has 20 items: 10 relating to idealism and 10 relating to relativism. Third, another 241 students were surveyed again to test this 20-item EPQ in Forsyth’s (1980) study and results confirmed the scales. The details of the EPQ are shown in Table 6.

Table 6
Ethics Position Questionnaire

Idealism	Relativism
1. One should make certain that his/her actions never intentionally harm another even to a small degree.	1. There are no ethical principles that are so important that they should be part of any code of ethics.
2. Risks to another should never be tolerated, irrespective of how small the risks might be.	2. What is ethical varies from one situation and society to another.
3. Potential harm to others is always wrong, irrespective of the benefits to be gained.	3. Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person.
4. One should never psychologically or physically harm another person.	4. Different types of moralities cannot be compared to 'rightness'.
5. One should not perform an action which might in any way threaten the dignity and welfare of another individual.	5. Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.
6. If an action could harm an innocent other, then it should not be done.	6. Moral standards are personal rules which indicate how a person should behave, and are not to be applied in judging others.
7. Deciding whether or not to perform an act by balancing the positive consequences of the act against the negative consequences of the act is immoral.	7. Ethical considerations in interpersonal relations are so complex that individuals should be allowed to form their own codes.
8. The dignity and welfare of people should be the most important concern in any society.	8. Rigidly codifying an ethical position that prevents certain types of actions could stand in the way of better human relations and adjustments.
9. It is never necessary to sacrifice the welfare of others.	9. No rule about lying can be formulated; whether a lie is permissible or not permissible depends upon the situation.
10. Moral actions are those which closely match the ideal of the most 'perfect' action.	10. Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action.

Source: Forsyth (1980)

The reliability and construct validity of Forsyth's ethical position questionnaire have been tested by a number of empirical studies. First, Lee and Sirgy (1999) used a principal components factor analysis and a confirmatory factor analysis to examine the construct validity of Forsyth' (1980) ethical ideologies scale. The exploratory factor analysis (principle components factor analysis) produced a factor model for *idealism* and the confirmatory factor analysis confirmed that a one-factor model fitted the sample data. Similarly, exploratory factor analysis also produced a factor model for *relativism* and the confirmatory factor analysis also confirmed that this one-factor model fitted the sample data. Results also showed that the idealism measure was highly reliable and the relativism measure had an acceptable reliability level.

Second, Davis et al.'s (2001) study also used a confirmatory factor analysis to examine the construct validity of Forsyth' (1980) ethical ideologies scale. Their study focused on the convergent, discriminant, and nomological validity of the instrument. Results suggested that Forsyth's original factors met these criteria because there was no correlation between idealism and relativism. In addition, there was a convergence between measures of the EPQ and the factor scores of Reidenbach and Robin's (1988) multidimensional ethics scale (MES). However, results of Davis et al. (2001) showed that the original two-factor model did not achieve an acceptable goodness-of-fit for the sample data. Instead the study produced a three-factor model. These three factors are labeled as: (1) idealism, (2) relativism, and (3) veracity. The scale reliabilities (Cronbach's alphas) of these three factors

were highly reliable. However, the authors claimed that it should be examined more closely (Davis et al. 2001), because *veracity* is significantly correlated to relativism.

Third, Redfern and Crawford (2004) and Redfern (2005) used a principle axis factor analysis to test the factor structure of Forsyth's (1980) EPQ using managers from the People's Republic of China. The two factor structure was adopted by using examinations like the plot of eigenvalues and the scree plot test. The reliabilities (Cronbach's alphas) were .86 for idealism and .70 for relativism.

Fourth, Cui et al. (2005) examined the factor structure of Forsyth's EPQ and measurement equivalence across five societies: Austria, Britain, Brunei, Honk Kong, and USA. First, their study used a confirmatory factor analysis to test the two factors of Forsyth's EPQ. Results showed that the two factor model did not meet the goodness-of-fit criterion for the simple data. Second, they used exploratory factor analysis to identify a modified scale and then a multi-group confirmatory factor analysis was conducted to assess the modified scale. Results of the exploratory analysis showed that the modified scale contained six items for idealism and six items for relativism across four samples, except for Hong Kong which contained five items for idealism and five items for relativism. Results of the confirmatory analyses on the modified model suggest that the modified model with two dimensions, idealism and relativism, was applicable in all five societies. The authors stated that the modified model... 'has adequately retained the core of the original EPQ' (Cui et al. P. 66).

The concepts of idealism and relativism are not opposites (Shaub, Finn & Munter 1993). Individuals with a high idealist moral philosophy can have a high or low relativist moral philosophy. Thus there are four possible ethical orientations in Forsyth's (1980) two-dimensional model. They depend on whether an individual rejects universal moral rules in favour of relativism and the degree to which he/she avoids harm to others. These four possible ethical orientations are (1) situationists, (2) absolutists, (3) subjectivists, and (4) exceptionists and they are shown in Table 7.

Table 7
Taxonomy of Ethical Ideologies

	High Relativism	Low Relativism
High Idealism	Situationist: Reject moral rules; advocate individualistic analysis of each act in each situation; relativistic.	Absolutist: Assumes that the best possible outcome can always be achieved by following universal moral rules.
Low Idealism	Subjectivist: Appraisals are based on personal values and perspectives rather than on universal moral principles; relativistic.	Exceptionist: Moral absolutes guide judgments but they are pragmatically open to exceptions to these standards; utilitarian.

Source: Forsyth (1980)

Situationists have high EPQ scores on both relativism and idealism. Forsyth says these individuals tend to reject universal moral rules but they still want to ensure positive consequences and to see that actions do not harm others (Forsyth 1992). Absolutists have high EPQ scores on idealism and low scores on relativism. These individuals tend to follow universal moral rules for making judgments and decisions

regardless of the circumstances. They are also...‘more likely to base ethical judgments on deontological principles such as Kant’s categorical imperative’ (Barnett et al. 1998 p. 716).

Subjectivists have high EPQ scores on relativism and low scores on idealism. Such individuals tend to make ethical judgments based on personal values and subjective feelings not on universal moral rules. Subjectivists are regarded as ethical egoists (Forsyth 1992). Finally, Exceptionists have low scores on relativism and low scores on idealism. Forsyth suggests these individuals may use universal moral rules to guide ethical judgments but also regard exceptions to these rules as acceptable.

Forsyth’s (1980) ethical ideology theory has been used in psychology (see Hadjistavropoulos et al. 2003), medical science (see Eastman, Eastman & Tolson 2001), and business context studies (see Shaub et al. 1993; Barnett et al. 1994; Douglas, Davidson & Schwartz 2001; Douglas & Wier 2005). Shaub et al. (1993) and Barnett et al. (1994) were early researchers in examining the influence of ethical ideology on individuals’ ethical judgments in business context. Redfern and Crawford (2004), Redfern (2005), and Douglas and Wier (2005) are studies about Chinese subjects’ ethical positions in business context.

There are two types of empirical studies about ethical ideologies. First, studies which compare the effects of cultural differences on individuals’ ethical ideologies. Second, studies which investigate the effects of ethical ideologies on individuals’ ethical decision-making. The details of these two types of empirical studies are discussed next.

4.3.2 The effects of culture on individuals' ethical ideologies

Forsyth's (1980) ethical ideology has been widely used to compare the effects of national cultural differences on an individual's ethical ideologies in business context studies (see Davis, Johnson & Ohmer 1998; Singhapakdi, Higgs-Kleyn & Rao 1999; Attia, Shankarmahesh & Singhapakdi 1999; Douglas and Wier 2005). Forsyth's ethical ideologies (1980) are western-culture based. Thus most prior studies tended to compare the ethical ideologies of American subjects and non-American subjects. These studies suggest that culture affects individuals' ethical ideologies but there is no consistent evidence that American subjects are lower (higher) on idealism or relativism than non-American subjects.

Singhapakdi, Vitell and Leelakulthanit (1994) compared moral philosophy, ethical perceptions, and ethical judgments between Thai and American marketers based on Hunt and Vitell's (1986) ethical decision-making theory, Forsyth's (1980) ethical ideological theory, and Hofstede's (1980) cultural theory. Results show that Thai marketers had higher scores on both idealism and relativism than did American marketers. Thai marketers were also less likely to perceive ethical problems but they tended to judge each 'action' as more acceptable than did the American marketers.

Davis et al. (1998) compared the impact of moral intensity (Jones 1991) and ethical ideologies (Forsyth 1980) on 267 business students' ethical decision-making across Austria, Indonesia and America. Forsyth's (1980) 20-item EPQ, Reidenbach and Robin's (1988; 1990) multi-dimensional ethical scale, and ethical vignettes were used to measure students' ethical ideologies and decision-making. The results

indicated that respondents' ethical orientations differed across the three cultural backgrounds. American respondents fell into the absolutist category while Indonesian respondents fell into the subjectivist category. Austrian respondents were evenly dispersed across all categories.

Attia, Shankarmahesh and Singhapakdi (1999) and Singhapakdi, Higgs-Kleyn and Rao (1999) compared moral philosophy, ethical perceptions, and ethical judgments between Middle-Eastern, American, and South African marketers based on Hunt and Vitell's (1986) ethical decision-making theory, Forsyth's (1980) ethical ideological theory, and Hofstede's (1980) cultural theory. They found that Middle-Eastern marketers were more idealistic than American marketers. However, there was no difference in relativist moral philosophy between these two groups. Singhapakdi et al. (1999) also found that South African marketers were more idealistic and less relativistic than American marketers.

Redfern and Crawford (2004) applied Forsyth's (1980) EPQ to compare the differences of Chinese managers' ethical ideologies between the North and South regions in China. Results show that Chinese managers in the South were higher on idealism than Chinese managers in the North but there were no significant differences in relativism between these two groups. Results show that Chinese managers appeared to apply relativism more than idealism.

Redfern (2005) investigated the influence of industrialization on Chinese managers' ethical ideologies. The sample consisted of 206 Chinese managers from various provinces in the People's Republic of China. Results show that Chinese managers

were high on both idealism and relativism but the scores for idealism were higher than the scores for relativism. The results also indicate that the scores for both idealism and relativism from a highly industrialized region were higher than from a less industrialized region.

Douglas and Wier (2005) compared the effect of national cultures and individuals' ethical ideologies on participative budgeting, and incentives to create slack and slack creation behaviour between American and Chinese managers. This study was based on Hofstede's cultural theory (1980), Forsyth's ethical ideology (1980), and budgetary slack theory. Results from 142 working MBA students and 220 certified American managers showed that there was no difference in idealism between American managers and Chinese managers. However, the proportion of Chinese managers in the situationist and absolutist dimensions was higher than for American managers and the proportion of Chinese managers in the subjectivist and the exceptionist dimensions was lower than for American managers.

In summary prior studies suggest that culture affects individuals' ethical ideologies but there is no consistent evidence that American subjects are lower (higher) on idealism or relativism than non-American subjects. The studies conducted by Singhapakdi et al. (1994), Attia et al. (1999), Lee and Sirgy (1999), and Singhapakdi et al. (1999) suggested that non-American subjects (Thai marketers, Mid-Eastern marketers, Korean managers, and South-African marketers) are higher on idealism than the American subjects (American marketers and managers). However, Douglas and Wier (2005) found that there were no differences between American and non-American subjects' on idealism. Singhapakdi et al. (1994) and Davis et al.

(1998) found that relativism was higher for non-American subjects than for American subjects. Douglas and Wier (2005) found however that, non-American subjects were lower on relativism than American subjects while Attia et al. (1999) and Lee and Sirgy (1999) found that there was no difference between the subjects. A summary of results of prior studies is given in Table 8.

Table 8
Cultural Differences in Individual Ethical Ideologies

	Idealism	Relativism
Singhapakdi et al. (1994)	Thai marketers were significantly higher than American marketers ($p = .006$)	Thai marketers were significantly higher than American marketers ($p = .000$)
Davis et al. (1998)	Indonesian students were lower than American students	Indonesian students were higher than American students
Attia et al. (1999)	Mid-Eastern marketers were significantly higher than American marketers ($p = .000$)	No difference between Mid-Eastern marketers and American marketers ($p = .266$)
Lee and Sirgy (1999)	Korean managers were significantly higher than American managers ($p = .000$)	No difference between Korean managers and American managers ($p = .995$)
Singhapakdi et al. (1999)	South-African marketers were significantly higher than American marketers ($p = .000$)	South-African marketers were significantly lower than American marketers ($p = .008$)
Douglas and Wier (2005)	No difference between Chinese managers and American managers ($p \leq .37$)	Chinese managers were significantly lower than American managers ($p \leq .0001$)

4.3.3 The effects of ethical ideologies on ethical decision-making

Prior studies in a business context provided evidence that there is a relationship between individuals' ethical ideologies and their ethical judgments. Most studies found that idealism had a strong influence on ethical judgments but relativism had

little or no effect. In 1978, Forsyth provided evidence that...‘ethical ideology people adopt influences their moral judgments’ (Forsyth 1980 p. 182). His other studies (see Forsyth 1981; 1984; 1985) also confirmed that...‘individuals who differ in relativism and idealism “divaricate” (or diverge) when making moral judgments’ (Forsyth 1992).

Shaub et al. (1993) were the first to study the effects of auditors’ ethical ideologies on professional and organizational commitment and ethical sensitivity. This study was based on Forsyth’s (1980) ethical ideology theory integrated with Araya, Pollock and Amernic’s (1981) professional commitment theory, and Araya and Ferris’ (1984) organizational commitment theory. The path analysis method was used to build the testing model for the study. Forsyth’s (1980) EPQ and auditing scenarios were then used to measure 207 auditors’ ethical positions and their ethical decision-making. Their results show that both relativism and idealism were negatively associated with ethical sensitivities.

Barnett et al. (1994) examined the relationship between ethical ideology and ethical judgment by integrating Reidenbach and Robin’s (1988, 1990) multi-dimensional ethical scale. Forsyth’s (1980) EPQ and 26 ethical vignettes were used to measure individuals’ ethical positions and ethical judgments. Results from a survey of 166 business students showed that idealism were more likely to make ethical judgments. However, they also confirmed that relativism had no effect on ethical judgments for any of the ethical vignettes.

Barnett et al. (1996) examined the relationship between ethical ideology, religiosity and ethical judgment and intention to report peer wrongdoing. Structural Equation modelling was used to build a model for the study and Forsyth's (1980) EPQ was used to measure individuals' ethical ideology. Trevino and Victor's (1992) ethical vignettes and Reidenbach and Robin's (1988; 1990) multi-dimensional ethics scale were used to measure ethical judgments. Results from a survey of 267 business students indicated that idealists were more likely to make ethical judgments when reporting peer wrongdoing but relativists were less likely to do so. The results also indicated that ethical judgments were positively associated with ethical intentions.

Barnett et al. (1998) examined the relationship between ethical ideology and ethical judgment using a national sample of marketing practitioners. Forsyth's (1980) ethical ideology, Reidenbach and Robin's (1988; 1990) multi-dimensional ethical scale and three ethical vignettes adapted from prior studies were used to measure 381 marketing professionals' ethical ideologies and ethical judgments. The findings are consistent with the results of Barnett et al.'s (1996) study, that is, that idealists are more likely to make ethical judgments and relativists are less likely to do so.

Douglas and Schwartz (1999) examined the relationships between ethical ideologies, situational factors and ethical judgments by surveying 193 accounting students. Results confirmed that personal ethical ideologies affect participants' judgments of ethical dilemmas and that idealists were more likely to make an ethical judgment but relativists were more likely to make an unethical judgment.

Singhapakdi et al. (2000) investigated the influence of ethical perceptions, personal ethical ideologies, religiosity, and corporate ethical values on the ethical intentions of 798 Thai managers. Hunt and Vitell's (1986) general theory of marketing ethics was used as the ethical decision-making model for the study. Forsyth's (1980) ethical position questionnaire, Wilkes, Burnett and Howell's (1986) religiosity scale, and Hunt, Wood and Chonko's (1989) corporate ethical values and marketing ethical scenarios were used to measure subjects' ethical ideologies, religious beliefs, levels of corporate ethical culture, and ethical intentions. Results show that idealist Thai managers were more likely to have ethical intentions but that relativist Thai managers were less likely to do so. They also show that the levels of organizational ethical values were positively associated with managers' ethical intentions, and that religiosity was partly associated.

Chui and Stembridge (2001) examined the impact of ethical ideologies and locus of control on 348 MBA students' ethical judgments and intentions on reporting peer wrongdoing. This study was based on Ajzen and Fishbein's (1980) Theory of Reasoned Action and integrated with Forsyth's (1980) ethical ideology and Rotter's (1966) Locus of Control. Results indicated that idealism was significantly and positively associated with ethical judgments about reporting peer wrongdoing but that relativism had no effect on ethical judgments.

Davies, Andersen and Curtis (2001) examined the impact of Forsyth's (1980) ethical ideologies on ethical judgments and intentions based on Hunt and Vitell's (1986) ethical decision-making model integrated with Reidenbach and Robin's (1988; 1990) multi-dimensional ethical scale. Vignettes were used to measure 196 graduate

business students' ethical judgments and intentions. The results show that idealism strongly influenced ethical judgments but relativism was less influential.

Douglas et al. (2001) examined the effect of auditors' ethical ideologies on their ethical judgments. This study was based on theories of ethical ideology (Forsyth 1980), moral intensity (Jones 1991), and organizational ethical culture (Hunt et al. 1989). Forsyth's 20-item (1980) EPQ, Jones' (1991) six characteristics of moral issues, Hunt et al.'s (1989) five-item corporate ethics scale, and seven ethical vignettes were used to measure 304 American auditors' ethical judgments. Results show that idealist auditors were more likely to make ethical judgments in high moral intensity situations, but relativist auditors were not.

In summary, prior studies showed that there was a relationship between individuals' ethical judgments and their ethical positions (i.e., idealism and relativism). Except for Shaub et al.'s (1993) study, other studies showed that idealism was positively associated with their ethical judgments but relativism was negatively associated with or has no effect. Table 9 provides examples of prior studies about the effects of ethical ideologies on ethical decision-making.

Table 9
The Effect of Ethical Ideologies on Ethical Decision-making

	Idealists	Relativists
Shaub et al. (1993)	were slightly less likely to detect an ethical issue	were less likely to detect an ethical issue
Barnett et al. (1994)	were more likely to make ethical judgments	No effect
Barnett et al. (1996)	were more likely to make ethical judgments	were less likely to make ethical judgments
Barnett et al. (1998)	were more likely to make ethical judgments	were less likely to make ethical judgments
Douglas and Schwartz (1999)	were more likely to make ethical judgments	were less likely to make ethical judgments
Singhapakdi et al. (2000)	were more likely to have an ethical intention	were less likely to have an ethical intention
Chui and Stenbridge (2001)	were more likely to make ethical judgments	No effect
Davis et al. (2001)	were more likely to make ethical judgments	No effect in most scenarios
Douglas et al. (2001)	were more likely to make ethical judgments	No effect

Conclusion

This Chapter reviews existing definitions of morality, ethics, and values. It also examines ethical ideologies and empirical studies about ethical ideologies. This study identifies that the influential factors on Chinese auditors' ethical decision-making are focused on auditors' values because values are the motivation behind decision-making and behaviours. This study also identifies that an individual's ethical decision-making is influenced by his/her ethical ideologies suggested by Forsyth. An idealistic person makes an ethical judgment based on universal moral rules whereas a relativist makes an ethical judgment based on personal feelings and situations. Empirical studies suggest that idealism has a positive impact on ethical

judgments whereas relativism has a negative impact and in some cases it has no effects on ethical judgments.

Chapter 2, 3, and 4 reviewed literature about the factors that influence Chinese auditors' ethical decision-making. These factors include Chinese traditional cultural values, Chinese auditing environments, and ethical ideologies. The following Chapter will provide a theoretical framework for this study and develop hypotheses to test Chinese auditors' ethical decision-making.

Chapter 5

Theoretical Framework and Hypotheses Development

The objective of this Chapter is to develop a theoretical framework for testing Chinese auditors' ethical decision-making. The factors that would influence Chinese auditors' ethical decision-making were reviewed in Chapters 2, 3 and 4. These factors include Chinese traditional cultural values, Chinese people's *guanxi* orientations, their attitudes towards money, China's economic reform, currently Chinese auditing environments, and ethical ideologies. This Chapter provides a research model for this study and hypotheses development.

5.1 Theoretical framework of the Study

The aim of this study is to identify the values of Chinese auditors and examine their effect on ethical judgments and intentions. Chinese auditors' ethical judgments and intentions are examined using a well understood ethical dilemma in auditing, specifically whether an auditor should accept a client's suggestion to inappropriately alter the financial position or to adhere to accounting and professional standards.

As discussed in Section 4.3, the theoretical framework for this study will be based on Forsyth's (1980) model of ethical ideologies. This study also identifies Chinese auditors' cultural values as (1) Chinese traditional cultural values, (2) interpersonal relationships (*guanxi*), (3) attitudes towards money. These cultural values will impact on their ethical ideologies and their ethical judgments and intentions are, in turn influenced by their ethical ideologies.

National cultural values; *guanxi* orientations, attitudes towards money, firms' ethical cultures, and personal factors represent the independent variables that are believed to influence an auditor's ethical ideologies. Ethical ideologies (idealism and relativism) are initially treated as dependent variables, which become the independent variables in a subsequent test of relationships with ethical judgments and intentions. The complete ethical decision making model for this study is provided in Figure 4.

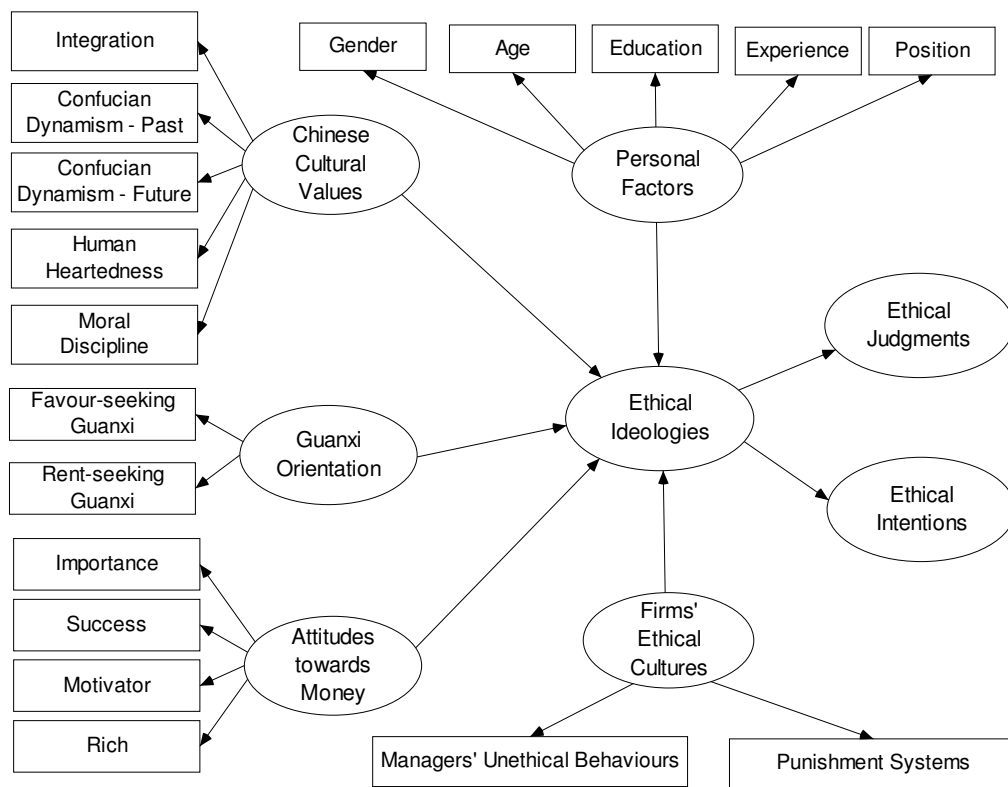


Figure 4: Chinese Auditors' Ethical Decision-making Measurement Model

As discussed in Section 2.3, the Chinese Culture Connection (1987) categorised Chinese national cultural values into four dimensions, (1) Integration, (2) Confucian Work dynamism, (3) Human-heartedness, and (4) Moral discipline. Confucian work dynamism dimension includes two components: (1) future orientation; and (2) past

orientation. Chinese people's *guanxi* orientations are regarded as the product of Chinese cultures. In the Section 2.4, Su and Littlefield (2001) were described as having classified *guanxi* into two dimensions: favour-seeking *guanxi* and rent-seeking *guanxi*. Favour-seeking *guanxi* is culturally rooted and rent-seeking *guanxi* is a product of contemporary China's political and economic systems (Fan 2002; Seligman 1999; Steidlmeier 1999). Prior studies have almost exclusively focused on favour-seeking *guanxi*. In this study, rent-seeking *guanxi* is, included in the examination of Chinese auditors' interpersonal relationships given its relevance to modern China. Thus Chinese auditors' *guanxi* orientations are examined considering both dimensions.

As discussed in Section 2.5.2, Tang et al. (2003) developed a theory, namely the *Love of Money*, to reflect the affective and cognitive components and it includes four factors: (1) *importance* (2) *success*, (3) *motivator*, and (4) *rich*. The *importance* factor is concerned with money as important and good; the *successes* factor is concerned with money as one's successes and achievements, the *motivator* factor is concerned with money as a motivator; and the *rich* factor is concerned with one's desire to be rich. The *Love of Money* (LMOS) theory is well developed and widely used in studying people's attitude towards money (Du & Tang 2005).

As indicated in Figure 4, the ethical culture of accounting and auditing firms in China is included as a factor influencing ideologies. Hunt, Wood and Chonko (1989) defined organisational ethical values as... 'a composite of the individual ethical values of managers and both the formal and informal policies on the ethics of the organisation' (p. 79). They are regarded as... 'the most important deterrent to

unethical behaviour' (Douglas et al. 2001 p. 105) and play a leading role in corporate governance (Schwartz, Dunfee & Kline 2005). Hunt et al.'s (1989) Corporate Ethical Values scale is based on Chonko and Hunt's (1985) study and considerations of... 'the degree to which organisations take an interest in ethical issues and act in an ethical manner' (Hunt et al. 1989 p. 82) and a reward system in an organisation. They summarised organizational ethical values into two dimensions, (1) managers' unethical behaviours and (2) punishment systems. The first dimension is concerned with the extent of managers' unethical behaviours and managers' concerns about the ethical issues in their organisation. The second dimension is concerned with the extent of top managements' actions regarding an unethical act. Prior studies showed that by setting the ethical tone top management help reduce the ethical conflicts experienced by others within an organisation (Finn et al. 1988), and that they influenced employees' ethical decision-making. Hunt et al.'s (1989) Corporate Ethical Values scale has been widely used in prior studies in measuring an organisation's ethical cultures. Thus Chinese auditors' work environments are examined in this study under these headings.

Finally, personal contextual factors (i.e., gender, age, education, experience, and work position) are included in order to complete the relational model.

5.2 Hypotheses Development

The aim of this study is to examine Chinese auditors' values, their impact on ethical ideologies and the effect the latter have on judgment and intention. The following questions address specific objectives

1. What national cultural values best describe Chinese auditors?

2. How do Chinese cultural values impact ethical ideologies (i.e., idealism and relativism) as they apply to practicing auditors?
3. Do identifiable ethical ideologies, adopted by auditors, influence the decision-making process in issues relating to audit independence? In particular, ethical judgments and intentions.
4. How do certain contextual matters, namely firms' ethical culture and personal factors

A descriptive analysis of the cultural values of Chinese auditors' values is exploratory and not previously researched. For this reason, no hypothesis is proposed to answer the first research question. The details of hypotheses development for questions 2 to 4 are discussed in the following section.

5.2.1 The effects of Chinese cultural values on ethical ideologies

5.2.1.1 Chinese traditional cultural values and ethical ideologies

As explained in Section 2.2, the thinking and behaviours of Chinese people are influenced by Confucianism to varying degrees. Humaneness or benevolence (*ren*) is Confucius' ultimate commitment (Liu 1985) and the core value of Confucianism. The Confucian golden rule, do not treat others as one would not like to be treated oneself, has influenced Chinese people's behaviours over three thousands years. These cultural values are consistent with Forsyth's principle of Idealism that one's actions should avoid to harm others.

Hofstede' (1980; 1991) theory suggests that Chinese culture emphasizes power distance, collectivism and femininity, along with stronger uncertainty avoidance

tendencies and a long-term orientation. People strong in uncertainty avoidance are concerned about security in life and are uncomfortable in unstructured situations (Hofstede 1980). Thus they adhere to strict laws and rules to avoid such situations. People in a feminine society define the dominant value as caring for others and the quality of life (Hofstede 1980). These principles are also consistent with Forsyth's Idealist moral paradigm. Prior studies suggest that individuals in larger power distance and collective society with stronger uncertainty avoidance are more likely to have higher Idealist tendencies. For example, Singhapakdi et al. (1994) and Lee and Sirgy (1999) found that Thai marketers and Korean managers had stronger Idealist beliefs than their American counterparts. Thailand, Korea, and China are classified in the same cultural dimension categories in Hofstede's cultural typology. In addition, Buddhism is a dominant religion in Thailand and also influences the way of Chinese peoples' lives (Yau 1994). Its moral principles like compassion, mercy, and tolerance are consistent with Confucius's humaneness (*ren*) moral principle.

Idealism and Relativism are not opposites according to Forsyth's (1980) taxonomy of ethical ideologies. Individuals with a high idealist moral philosophy can have a high or low relativist moral philosophy. Individuals high on idealist and relativist moral philosophy are classified as Situationists according to Forsyth's taxonomy of ethical ideologies (refer Table 7, Chapter 4). Prior studies suggest that Chinese people's decision-making is situational, which suggests that Chinese people also have strong relativist beliefs. For example, Ralston et al. (1995) and Jackson et al. (2000) found that Hong Kong managers' ethical decision-making depended on given situations or consequential criteria. Redfern and Crawford (2004) and Redfern (2005) found that Chinese managers' ethical positions are higher on both idealism and relativism

dimensions. Hofstede's cultural theory also suggests that people in a collective culture focus on the group and regard group interests as more important than individual preferences. This is consistent with the principle of harmony which promoted by Confucianism and Daoism. Thus the results of prior studies suggest Chinese traditional cultural values have high relativist and idealist content.

In this study, Chinese auditors' values are examined in five cultural value dimensions, (1) CVS_I (Integration), (2) CVS_{IIF} (Confucian work dynamism future orientation), (3) CVS_{IIP} (Confucian work dynamism past orientation), (4) CVS_{III} (Human-heartedness), and (5) CVS_{IV} (Moral discipline), according to the Chinese Culture Connection (1987). Thus the hypotheses for this study are proposed based on these five dimensions.

CVS_I (Integration) dimension is concerned with social stability. It focuses not on competition or being conservative but on harmony with others. Prior studies (the Chinese Culture Connection 1987; Ralston et al. 1992; Tang 2002) found that Chinese people are low on the integration dimension. The Chinese Culture Connection (1987) found that there is a positive relationship between Hofstede's *individualism* and CVS_I (Integration). This result suggests that the lower CVS_I (Integration) the lower *individualism* or the higher *collectivism*. Hofstede's culture theory classified the Chinese culture as a collective culture. He asserts that people in a collective culture are not focused on themselves but on the group and regard the groups' interests as more important than their own. His theory also suggests that people from a collective culture make ethical judgments based on the teleological principle that is what is good for the greatest number is good for all. Hofstede's

suggestion is consistent with Forsyth's (1980) relativist principles. For example, Forsyth's Ethics Position Questionnaire EPQ (refer Table 5) items 2 and 10 state that... 'what is ethical varies from one situation and society to another' and 'whether a lie is judged to be moral or immoral depends upon the circumstance surrounding the action'. Forsyth's (1980) relativist principles are also consistent with the items of CVS_I (Integration). For example, the *tolerance of others* and *harmony with others* items in the CVS_I (Integration) dimension are consistent with Forsyth's EPQ items 6 and 7, that is that...

moral standards are personal rules which indicate how a person should behave, and not to be applied in judging others and ethical considerations in interpersonal relations are so complex that individuals should be allowed to form their own codes (see Table 5).

Taking an auditing work environment as an example, this dimension reflects auditors' attitudes when they work with others in their firms. Auditors with low Integration like to respect their managers and cooperate with their colleagues and do not insist on their own opinions. This behaviour implies that they are more likely to discuss ethical problems with their managers and colleagues when making an ethical decision. His/her decisions would then be based on the group's opinions and groups' interests rather than the absolute standard that he/she should follow. This suggests that auditors rating low on Integration are more likely to be relativists than idealists. Thus this study hypothesises that:

H_{1.1}: Chinese auditors' traditional cultural values in Integration dimension are negatively associated with Idealism.

H_{1.2}: Chinese auditors' cultural values in Integration dimension are positively associated with Relativism.

CVS_{IF} (Confucian work dynamism future orientation) component reflects Confucius' work ethics (the Chinese Culture Connection 1987) by focusing on social hierarchy, and personal virtue. Confucius emphasized that ordering relationships should be reciprocal. The relationships and associated values suggested by Confucius are consistent with the principle of Idealism that one's actions should avoid harm to others. For example, Forsyth believes that... 'if an action could harm an innocent other, then it should not be done' (Forsyth 1980 EPQ item 6).

In an auditing work environment, an auditor with high Confucian Work dynamism future orientations implies that he/she is committed to his/her duty and obligations that is, he/she has an obligation to protect the public and shareholders' interests. Such persons respond to superiors, including shareholders, and like to maintain their professional reputation in society. These values suggest that auditors with high Confucian Work dynamism future orientations are more likely to be idealists than relativists. Thus this study hypothesises that:

H_{2.1}: Chinese auditors' cultural values in Confucian Work dynamism dimension future orientation component are positively associated with Idealism.

H_{2.2}: Chinese auditors' cultural values in Confucian Work dynamism dimension future orientation component are negatively associated with Relativism.

CVS_{IP} (Confucian Work dynamism past orientation) includes four negative factor loading items and they focus on the need to protect personal social status and respect

tradition. The four items are *reciprocation*, *protect your 'face'*, *personal steadiness*, and *respect for tradition*. *Reciprocation* means...‘to give and receive reciprocally or interchange’ (Macquarie Australia’s National Dictionary 2002 p. 334). *Face in society* is a mechanism for Chinese people to develop and maintain relationships with each other (Su & Littlefield 2001). Both items reflect Chinese people’s *guanxi* orientations. Prior studies suggest that an individual with a higher level of *guanxi* orientation is relativistic. *Personal steadiness* means a person should keep his character and integrity. It is consistent with the principle of idealism. *Respect for tradition* means respect for traditional cultural values which have relativist and idealist content as discussed early. Thus these four negative items of Confucian Work dynamism past orientations are expected to negatively associated with idealism and relativism. This study hypothesises that:

H_{3.1}: Chinese auditors’ cultural values in Confucian Work dynamism dimension past orientation component are negatively associated with Idealism.

H_{3.2}: Chinese auditors’ cultural values in Confucian Work dynamism dimension past orientation component are negatively associated with Relativism.

CVS_{III} (Human-heartedness) dimension is concerned with an individual’s social awareness. This dimension focuses on the need to be kind, patient and courteous to others while maintaining a righteous character. These values imply that a person higher on Human-heartedness values will not take any action that could harm others. Thus the principle of Human-heartedness is consistent with the principles of idealism suggested by Forsyth (1980). It suggests that an individual with high human-heartedness is more likely to be an idealist rather than a relativist. Thus this study hypothesises that:

H_{4.1}: Chinese auditors' cultural values in Human-heartedness dimension are positively associated with Idealism.

H_{4.2}: Chinese auditors' cultural values in Human-heartedness dimension are negatively associated with Relativism.

CVS_{IV} (Moral discipline) dimension is concerned with personal control. This dimension focuses on the need to be selfless (Ralston et al. 1992). In an auditing context, an auditor with high moral discipline will put shareholders' interests ahead of his/her own when making a decision, so as to avoid harm to others. Thus auditors high in Moral discipline are more likely to be idealists than relativists. Thus this study hypothesises that:

H_{5.1}: Chinese auditors' cultural values in Moral discipline dimension are positively associated with Idealism.

H_{5.2}: Chinese auditors' cultural values in Moral discipline dimension are negatively associated with Relativism.

5.2.1.2 *Guanxi* orientations and ethical ideologies

The principle of normative ethics is whether... 'the quality of the ethical decision is determined by universal principles or... by the consequences of the action' (Baker 1999 p. 130). From a universal moral principles perspective, *guanxi* is against the principle of fairness and violates the 'arm's length principle' (Fan 2002) and the fiduciary duties rule (Dunfee & Warren 2001). Its consequences are... 'personal gains at social cost' (Fan 2002 p. 371). It also reduces social wealth and benefits a few at the expense of the many (Dunfee & Warren 2001). However, Lovett et al. (1999) argue from a relativistic standpoint that it is wrong to assume that an action is

necessarily unethical because it is not based on universalistic principles, that is, that people should also consider cultural differences and economic efficiency. For example, some research has found that *guanxi* improves business performance (Davies et al. 1995), impacts on firm efficiency and growth (Luo and Chen 1997; Chen et al. 2002), and provides certain transaction cost advantages (Standifird & Marshall 2000).

Su and Littlefield (2001) distinguish favour-seeking *guanxi* from rent-seeking *guanxi*. Favour-seeking *guanxi* is culturally rooted (Su et al. 2003) and rent-seeking *guanxi* is a product of contemporary China's political and economic systems (Fan 2002; Seligman 1999; Steidlmeier 1999). Su et al. (2003) sought to establish whether favour-seeking *guanxi* was related to Chinese purchasing managers' moral reasoning but they found no relationship between favour-seeking *guanxi* and moral reasoning. Their study suggests that a high favour-seeking *guanxi* orientation is not necessarily unethical, i.e. favour-seeking *guanxi* is another way of doing business in China. However, other studies suggest that rent-seeking *guanxi* leads to corruption and bribery (Snell 1999) and negatively impacts on ethical judgments (Ang & Leong 2000). Au and Wong (2000) also found that *guanxi* had a significant and negative impact on Hong Kong auditors' ethical judgments in auditor-client conflict situations. Their study also suggests that auditors with high levels of moral reasoning were less likely to use *guanxi* orientations. Hwang and Staley (2005) found that *guanxi* created a potential for violating the law, auditing standards, and the Code of Professional Conduct.

Results of prior studies indicate that an individual with a higher level of *guanxi*

orientation is more likely to be concerned with his/her interests than those of others. Thus they hold higher relativist positions. Thus it is therefore expected that the higher level of favour-seeking *guanxi* and rent-seeking *guanxi* orientations auditors are more likely to be relativists whereas the lower level of favour-seeking *guanxi* and rent-seeking *guanxi* orientations auditors are more likely to be idealists. It is expected that both favour-seeking *guanxi* and rent-seeking *guanxi* are positively associated with relativism but negatively associated with idealism. Thus this study hypothesises that:

H_{6.1}: Chinese auditors' favour-seeking *guanxi* orientations are negatively associated with Idealism.

H_{6.2}: Chinese auditors' favour-seeking *guanxi* orientations are positively associated with Relativism.

H_{7.1}: Chinese auditors' rent-seeking *guanxi* orientations are negatively associated with Idealism.

H_{7.2}: Chinese auditors' rent-seeking *guanxi* orientations are positively associated with Relativism.

5.2.1.3 Attitudes towards money and ethical ideologies

Vitell, Singhapakdi and Thomsa (2001) argue that the love of money is related to materialism which is... 'an orientation toward possessions and money in the attempt to achieve personal happiness' (p. 5). Prior studies have shown that Chinese people are motivated by money and profit seeking (Whitcomb et al. 1998; Yang 2003) and their attitudes towards money have a negative impact on their ethical decision-making. For example, Ang (2000) found that a belief that money works wonders was negatively correlated with beliefs about corporate ethics and social

responsibility. Tang and Chiu (2003) examined the notion that the *Love of Money* is the root of evil using a sample of 211 full-time employees in Hong Kong. Results show that the *Love of Money* was positively related to unethical behaviour in organisations. Vitell, Paolillo and Singh (2006) also found that the *Love of Money* had a negative effect on consumers' ethical behaviours. Thus prior studies suggest that an individual with a high level of the *Love of Money* has a lower level of ethical awareness and is more likely to be concerned with his/her interests than those of others. Therefore, it is expected that Chinese auditors' level of the *Love of Money* is positively associated with relativism but negatively associated with idealism. Thus this study hypothesises that:

H_{8.1}: Chinese auditors' beliefs about the importance of money are negatively associated with Idealism.

H_{8.2}: Chinese auditors' beliefs about the importance of money are positively associated with Relativism.

H_{9.1}: Chinese auditors' beliefs that money represents one's successes are negatively associated with Idealism.

H_{9.2}: Chinese auditors' beliefs that money represents one's successes are positively associated with Relativism.

H_{10.1}: Chinese auditors' beliefs that they are motivated to work hard for money are negatively associated with Idealism.

H_{10.2}: Chinese auditors' beliefs that they are motivated to work hard for money are positively associated with Relativism.

H_{11.1}: Chinese auditors' beliefs that to be rich is good are negatively associated with Idealism.

H_{11.2}: Chinese auditors' beliefs that to be rich is good are positively associated with Relativism.

5.2.2 The effects of contextual factors on ethical ideologies

5.2.2.1 Firms' ethical culture and its relationship to ethical ideologies

Hunt et al. (1989) Corporate Ethical Values includes two dimensions, managers' unethical behaviours and the reward/ punish systems for ethical/unethical behaviours within an organization. Prior studies showed that by setting an ethical tone at the top management helps reduce ethical conflicts experienced by others within an organisation (Finn et al. 1988), and that they influence employees' ethical decision-making. For example, Chonko and Hunt (1985) and Finn et al. (1988) found that top managements' actions had a significant influence on American marketers' and Certified Public Accountants' perceptions of ethical problems. Soutar et al. (2004) found that the values of top management significantly impacted the ethical choices made by employees. Singhapakdi et al. (2005) found that corporate ethical values enhanced marketers' awareness about the importance of ethics and social responsibility. Vitell and Hidalgo (2006) found that corporate ethical values were positively related to individuals' attitudes towards the role of ethics and social responsibility in achieving organisational effectiveness. These studies suggest that individuals who work in an ethical work environment are more likely to be aware of ethical issues and respond to them appropriately. Their ethical positions are therefore more likely to Idealism. Thus it is expected that managers' unethical behaviours are negatively associated with Idealism but be positively associated with Relativism. Thus this proposes that:

H₁₂₋₁: Auditors employed in work environments where managers display unethical behaviours are likely to disclose attitudes that are negatively associated with Idealism.

H₁₂₋₂: Auditors employed in work environments where managers display unethical behaviours are likely to disclose attitudes that are positively associated with Relativism.

The second dimension is concerned with the extent to which employees' perceptions of their organisations' position that any unethical behaviour will not be tolerated and ethical behaviours will be rewarded. Schwartz (2001) suggests that a person with a higher level of perceived corporate ethical values is more likely to take a high idealist position. Studies by Douglas et al. (2001) and Vitell and Hidalgo (2006) confirm this position. Douglas et al. (2001) found that perceived organisational culture values significantly affect Idealism but not Relativism. Vitell and Hidalgo (2006) also found that Idealism is positively associated with individuals' attitudes towards the role of ethics and social responsibility but not Relativism. Thus it is expected that Chinese auditors' levels of beliefs about their firms reward/punish systems will be positively associated with Idealism but negatively associated with Relativism. Thus this study proposes that:

H₁₃₋₁: Auditors employed in work environments where punishment systems exist are likely to disclose attitudes that are positively associated with Idealism.

H₁₃₋₂: Auditors employed in work environments where punishment systems exist are likely to disclose attitudes that are negatively associated with Relativism.

5.2.2.2 Personal factors and ethical ideologies

Personal factors included in this study are gender, age, work experience, levels of education and employment position. Douglas and Schwartz (1999) found that gender

was significantly correlated with respondents' Idealism but not Relativism. They also found that there was no significant difference between male and female students' relativist positions but male students had lower idealism scores than female students. Prior studies also suggest that Idealism is positively associated with ethical sensitivity, judgment, and intention and that Relativism was negatively related. Ammen et al. (2001) found that female subjects were more sensitive to and less tolerant of unethical activities than their male counterparts. Cole and Smith (1996) also found that females are more likely to make an ethical judgment than males. Moreover, Singhapakdi (1999) and Cohen et al. (2001) found that women are more likely to disagree with unethical actions and also are less willing to act unethically. These studies could suggest that females are more idealistic than males. Thus this study proposes that:

H_{14.1}: Female auditors are more idealistic than male auditors.

H_{14.2}: Male auditors are relativistic than female auditors.

Forsyth (1980) found that an individual's ethical ideologies are influenced by age. His study suggests that older subjects are less idealistic and relativistic than younger subjects. Arrington and Reckers' (1985) study confirmed this position. Douglas and Wier's research (2005) also found older American managers' idealist positions were significantly lower than their younger Chinese counterparts. Moreover, Douglas, HassabElnaby, and Norman (2007) found that older American managers were less idealistic than younger Egyptian managers. However, Douglas and Schwarz (1999) found that Idealism scores were not significantly correlated with age. They also found that the mean scores of accounting students on Idealism and Relativism were significantly lower than those students in Forsyth's (1980) study, although the

average age of subjects in both studies was 21. Lee and Sirgy (1999) also found that Korean managers were more idealistic than American managers although Korean managers were older than American managers. On balance, previous research suggests that older subjects are not necessarily less idealistic than younger subjects as suggested by Forsyth (1980).

Douglas and Wier (2005) and Douglas et al. (2007) found that American subjects relativist scores were higher than their counterparts although American subjects were older. Lee and Sirgy (1999) also found that the mean difference in moral relativism between American and Korean managers was not significant. These studies also suggest that older subjects are not necessarily less realistic than younger subjects.

Thus prior studies do not provide consistent evidence that *age* is positively or negatively associated with one ideological preference. This study therefore proposes that:

H₁₅₋₁: There is no relationship between Chinese auditors' age and Idealism.

H₁₅₋₂: There is no relationship between Chinese auditors' age and Relativism.

There is little research that investigates ethical ideologies and work experience and employment positions in organisations. Given the strong correlation between age, work experience and employment position, this study hypothesises that:

H₁₆₋₁: There is no relationship between Chinese auditors' work experience and Idealism

H₁₆₋₂: There is no relationship between Chinese auditors' work experience and Relativism.

H₁₇₋₁: There is no relationship between Chinese auditors' level of employment and Idealism.

H₁₇₋₂: There is no relationship between Chinese auditors' level of employment and Relativism

Douglas and Schwarz (1999) compared the Forsyth's (1980) and Arrington and Reckers' (1985) studies and found that the mean scores of graduated students' ethical ideologies were significant lower than those of undergraduate students. Singhapakdi et al. (1994) and Attia et al. (1999) also found that higher educated American managers were less idealistic and less realistic than Thai and Middle Eastern managers. Thus this study proposes that:

H₁₈₋₁: Chinese auditors' level of education is negatively associated with Idealism.

H₁₈₋₂: Chinese auditors' level of education is negatively associated with Relativism.

5.2.3 The effects of ethical ideologies on ethical judgments

Prior studies were discussed in Section 4.3.3 suggest that individuals' ethical ideologies are related to their ethical judgments. An individual displaying relativistic tendencies makes a judgment based on a given situation whereas an idealist follows universal moral rules for decision-making. Most prior studies suggest that Idealism positively and strongly influences individuals' ethical judgments and that Relativism negatively influences them or has no effect. For example, Barnett et al. (1996), Douglas and Schwartz (1999), Davis et al. (2001) and Chui and Stenbridge (2001) provide evidence that Idealism strongly influences ethical judgments and that

Relativism has a negative or no influence. In addition, Vitell and Hidalgo (2006) found that Idealism is positively correlated to the degree of importance which individuals attribute to the role of ethics and social responsibility in achieving organisational effectiveness but Relativism was negatively correlated to these factors. This study posits that:

H_{19.1}: Chinese auditors' idealist positions are positively associated with ethical judgments.

H_{19.2}: Chinese auditors' relativist positions are negatively associated with ethical judgments.

5.2.4 The effects of ethical ideologies on ethical intentions

Ajzen and Fishbein's (1980) theory of Reasoned Action suggests that there is a positive relationship between an individual's judgments and his/her intentions. Their theory suggests that individuals who make highly efficient judgments are more likely to follow through with their intentions. Hunt and Vitell (1986, 1993) suggest that an individual's ethical intentions are based on his/her teleological evaluations, meaning that he/she evaluates the totality of goodness *versus* badness likely to be produced by each alternative before having an ethical intention. Rallapalli et al. (1998) and Sivadas et al. (2003) confirmed Hunt and Vitell's theory. Rallapalli et al. (1998) found that ethical intentions were affected by teleological evaluations but not deontological evaluations. Sivadas et al. (2003) also found that managers' ethical intentions are associated Relativism but not Idealism. However, other studies suggest that Idealism has a positive impact on individuals' ethical intentions while Relativism has a negative impact. For example, Singhapakdi et al.'s (2000) study show that Thai managers rating high in idealism display a positive association with their ethical

intentions while the opposite apply applies to relativistic managers. Thus it is expected that auditors rating high in Relativism are more likely to display lower scores for ethical intentions. Auditors with higher scores for Idealism are more likely to display higher scores ethical intentions. Thus this study hypothesises that:

H₂₀₋₁: For Chinese auditors Idealism is positively associated with ethical intentions

H₂₀₋₂: For Chinese auditors Relativism is negatively associated with ethical intentions

Conclusion

This Chapter developed a research model based on Forsyth' (1980) ethical ideologies theory. This study posits that Chinese auditors' ethical ideologies are the functions of their ethical judgments and intentions and their ethical ideologies are influenced by their cultural values, firms' ethical culture, and personal factors. This Chapter also developed the hypotheses for testing the following relationships:

1. Chinese auditors' cultural values and ethical ideologies
2. Chinese auditors' personal factors and ethical ideologies
3. Chinese auditors' firms' ethical culture and ethical ideologies, and
4. Chinese auditors' ethical ideologies and their ethical judgments and intentions.

Research design and measures for each variable in the research model will be discussed in the following Chapter.

Chapter 6

Research Methodology

The objective of this Chapter is to provide the research design and discuss the measures for each variable in the research model. Grove and Savich (1979) provide four critical aspects of reliability and validity for attitude research in accounting. They include: (1) the quality of the scale and questionnaire design, (2) the selection of the sample, (3) the use of appropriate statistical methods for results, and (4) interpretation of results. This Chapter focuses on the first three aspects. Part 6.1 discusses the research method, survey instruments, samples, and survey procedures. Part 6.2 discusses the measures for each variable in the research model and includes the discussion about the reliability and construct validity of each scale. Part 6.3 discusses the statistical methods used in the study.

6.1 Research Method

This study uses a survey methodology. The research method includes a discussion of the sample selection process and survey instrument design, and procedures for administering the survey.

6.1.1 Sample selection process

Grove and Savich (1979) point out that content validity considerations are a major factor in selecting a sample. The American Psychological Association defines content validity as...‘the test user wishes to determine how an individual performs at present in a universe of situations that the test situation is claimed to represent’ (p. 525). This indicates that it is necessary to investigate demographics and characteristics of

samples selected to...‘ascertain the comparability between control and experimental groups or between experimental groups and omitted groups’ (Grove & Savich 1979 p. 525). This study uses a sample of practicing Chinese auditors and includes those used in a preliminary pilot study.

6.1.1.1 Sample for the pilot study

Subjects for the pilot study were selected from accounting firms located in Shenzhen city of Guangdong Province. Shenzhen, a booming southern coastal city of 1.2 million people was chosen for this study as it was the first Special Economic Zone in China and is considered pivotal to understanding China’s economic development.

6.1.1.2 Sample for the main study

A sample of Chinese auditors was drawn from accounting firms located in Shenzhen, Hangzhou, Beijing, and Kunming cities. Shenzhen represents the southern region of China. Hangzhou, the capital city of Zhejiang Province represents the eastern coast cities of China. Beijing, the capital city of China represents the northern cities of China, and Kunming, the capital city of Yunnan Province represents the inland cities of China.

6.1.2 Survey instruments

6.1.2.1 Survey instrument for the pilot study

The survey instrument includes (1) a cover letter (2) a self-administered questionnaire and (3) a short auditing ethical case. The cover letter explains the objectives and importance of this study. It also states that all answers will remain confidential and anonymous. Respondents were also informed that their participation

was voluntary and that they could withdraw from this study at any time without negative consequences. Moreover, the cover letter states that this study has been approved by the Curtin University Human Research Ethics Committee. Contact details were also provided. The cover letter (in English) for the survey is shown in Appendix C and the Chinese version in Appendix E.

The self-administered questionnaire includes demographic information about respondents and questions about Chinese auditors' traditional cultural values, *guanxi* orientations, attitudes towards money, beliefs about their firm's ethical cultures, and ethical ideologies. Demographic information includes respondents' gender, age, education, position, and work experience. Thus the self-administered questionnaire has seven sections (refer Appendix D):

- Section 1 includes five questions about respondents' background information
- Section 2 includes twenty-eight questions about respondents' Chinese traditional cultural values.
- Section 3 includes twelve questions about respondents' *gaunxi* orientations.
- Section 4 includes twenty questions about respondents' ethical ideologies.
- Section 5 includes seventeen questions about respondents' attitudes towards money.
- Section 6 includes five questions about respondents' beliefs about their firms' ethical cultures.

The auditing ethical case, adapted from the *American Accounting Association* (1992) (see Roxas & Stoneback 1997) and modified to suit Chinese subjects, was used to evaluate auditors' perceptions about ethical issues, alternatives, and consequences. A

Chinese expert (who speaks fluent English and Mandarin) was engaged to translate the scales from English to Chinese. Another Chinese expert then translated the scales back to English from Chinese to ensure equivalence in both languages. The contracts of translation services for the survey instrument are shown in Appendixes A and B.

Respondents were required to read the case study and then answer eight questions. The first five questions deal specifically with judgment issues. Questions one and two are concerned with their perceptions of ethical issues and questions 3 to 5 are concerned with the ethicality of alternative actions. The remaining questions (6 to 8) are concerned with issues of intention.

6.1.2.2 Survey instrument for the main study

The survey was modified based on the findings of a pilot study. The items which measure Chinese auditors' values, ethical ideologies, and their demographic information remain unchanged. However, the original questions which were used to measure auditors' perceived consequences were removed from the survey instrument because they are not the focus of attention for this study. The remaining questions were modified to measure Chinese auditors' ethical judgments. Another three questions were identified in the short auditing case to measure auditors' ethical intentions in the main study. The final survey instrument (in English) is shown in Appendix D. and Chinese version is shown in Appendix F.

6.1.3 Procedures of the study

6.1.3.1 Procedure of the pilot study

The survey instruments were administrated at a Continuing Professional Education Program seminar for members of the Chinese Institute of Certified Public Accountants (CICPA) sponsored by the Shenzhen Institute of Certified Public Accountants in Shenzhen city. Two hundred (200) survey instruments were distributed. Members were asked to complete the instrument and return it during a break in proceedings. One hundred and ten (110) responses were received. Ten were incomplete, leaving 100 useable responses.

6.1.3.2 Procedure of the main study

The data collection was supported by the four Chinese accounting professional bodies: (1) Shenzhen Institute of Certified Public Accountants, (2) Zhejian Institute of Certified Public Accountants, (3) Chinese Institute of Certified Public Accountants (CICPA) in Beijing, and (4) Yunnan Institute of Certified Public Accountants. A covering letter and questionnaire were emailed to the Secretaries-General of these professional bodies. These four accounting professional bodies printed and distributed the survey instruments to all auditors registered with the Chinese Institute of Certified Public Accountants (CICPA). The professional bodies collected and posted the completed survey instruments to the Shenzhen Institute of Certified Public Accountants, where the author retrieved them.

Three hundred survey instruments were distributed in each of the four cities, culminating in a total of 1,200. The total of survey instruments received was 612 giving a respondent rate of 51%. Thirty-six (36) survey instruments were excluded from this study because they were incomplete and a further 22 instruments were also excluded because more than 10% of the data were missing.

The author was aware of a potential response bias because the survey instruments were distributed by Professional Accounting bodies. Under such pressure, some respondents might not answer the survey carefully and give insufficient attention to filling in the questions. Thus further examination was undertaken to check whether there were any inconsistent answers in each survey instrument. If respondents did not answer the survey consistently, they were deemed invalid and excluded from this study. For example, the first two items in the firms' ethical cultures scale measure perceptions about managers' unethical behaviours, whereas the remaining items measure perceptions about managers' ethical behaviours. Thus if respondents believed their managers act unethically they would give higher scores for the first two questions and lower scores for the remaining questions. Similarly, in the auditing case, question 3 is used to measure respondents' judgments on CPA Wong's compromising actions by agreeing to make the requested changes to the client's financial statements. Responses ranged from very unethical (1) to very ethical (7). If respondents believe making the changes on the client's financial statements is unethical, they will give a lower score for question 3. Question 4 is used to measure respondents' judgments on CPA Wong's uncompromising response that involved him refusing to CEO, Mr. Li make changes on the financial statements. Thus if respondents believe that making no changes on the client's financial statements is ethical, they will give a higher score for question 4. Results show that 229 respondents did not answer survey questions consistently. Thus the final useable number of respondents was 325², giving a response rate of 27%. The distribution of the responses is shown in Table 10.

² 612 - 36 - 22 - 229 = 325.

Table 10
Results of the Distribution of the Responses

City	Distributed	Respondents	Response Rate (%)	Useful Respondents	Final Response rate (%)
Beijing	300	59	20	20	7
Shenzhen	300	183	61	76	25
Hangzhou	300	201	67	110	37
Kunming	300	169	56	119	40
Total	1200	612	51	325	27

6.2 Measures

Reliability and validity are the basic characteristics of a good measurement instrument. Construct validity is a key issue in attitude scales (Copper & Schindler 2003). According to Sekaran (2000), reliability is concerned with accuracy in measurement and includes stability and consistency of measurement. Construct validity is concerned with...‘the ability of a scale to measure the intended concept’ (Sekaran 2000 p. 207). This section discusses the reliability and validity of each measure which used to measure the variables in the research model.

6.2.1 Chinese traditional cultural values

Chinese auditors’ beliefs about their traditional cultural values are measured using the Chinese Cultural Values Survey (CVS) in the Chinese Culture Connection’s (1987) study. As discussed in Section 2.3 and 5.2 of this study, the CVS is a Chinese cultural value based theory and is largely consistent with western instruments with the addition of an Eastern element, Confucian work dynamism (Ralston et al. 1992). Thus it is deemed to be a reliable and valid instrument for measuring Chinese people’s cultural values.

The CVS scale is a 28 item scale representing four dimensions as discussed in Section 2.3. CVS_{II} (Confucian work dynamism) dimension includes two components, (1) CVS_{IIF} (future orientation) and (2) CVS_{IIp} (past orientation). Respondents are asked to indicate their level of agreement with the CVS values items on a 9-point Likert scale. Responses range from not important (1) to extremely important (9). This study notes that some items in the CVS had negative factor loadings. These items were reversed before averaging them to compute the score of each dimension consistent with prior studies (see the Chinese Culture Connection 1987; Ralston et al. 1992; Woodbine 2002). For each respondent, a CVS score is computed by adding the scores of all items in each of the five dimensions together. A higher score for a CVS dimension indicates that respondents hold stronger beliefs about the value constructs. The 28 items of the Chinese traditional cultural values adopted from the Chinese Culture Connection (1987) and the reliabilities (Cronbach's Alpha) of five dimensions in the current study are shown in Table 11. The scores suggest a satisfactory degree of consistency in the way respondents dealt with the items.

Table 11
Reliabilities of Chinese Cultural Values

	Cronbach's Alpha		Cronbach's Alpha
CVS _I (Integration)	.795	CVS _{II} (Confucian work dynamism)	.668
1. Tolerance of other		CVS _{IIIF} (Future orientation):	
2. Harmony with others		1. Ordering relationships	
3. Solidarity with others		2. Thrift	
4. Non-Competitiveness		3. Persistence	
5. Trustworthiness		4. Having a sense of shame	
6. Contentedness			.617
7. Being conservative		CVS _{IIIP} (Past Orientation):	
8. A close, intimate friend		1. Reciprocation (-)	
9. Filial piety (-)		2. Personal steadiness (-)	
10. Patriotism (-)		3. Protecting your 'face' (-)	
11. Chastity in women (-)		4. Respect for tradition (-)	
CVS _{III} (Human-heartedness)	.750	CVS _{IV} (Moral discipline)	.712
1. Kindness		1. Moderation	
2. Patience		2. Keeping oneself disinterested	
3. Courtesy		3. Having few desires	
4. Sense of righteousness (-)		4. Adaptability (-)	
		5. Prudence (-)	

6.2.2 Chinese auditors' *guanxi* orientations

Chinese auditors' levels of favour-seeking *guanxi* orientations are measured using Ang and Leong's (2000) 9-item *guanxi* scale. As discussed in Sections 2.4 and 5.2 of this study, this scale was developed based on Chinese traditional cultures and Chinese people's interpersonal relationships. The scale... 'cover[s] various aspects of *guanxi* including knowing the right people, maintaining a network of relationships, being in the "inside" circle, returning favor for favor, gift giving, and cooperation' (Ang & Leong 2000 p. 137). An internal consistency test in Ang and Leong's (2000)

study revealed that the scale had high reliability (Cronbach's $\alpha = .82$). This scale has also been used in other studies. For example, Su et al. (2003) used it to measure Chinese purchasing managers' *guanxi* orientations and an internal consistency test revealed high reliability (Cronbach's $\alpha = .87$).

As noted in Section 2.4 of this study, *guanxi* orientations often involve relationships between business men and government officials. Such relationships were not prevalent prior to China's economic reform (Seligman 1999; Steidlmeier 1999). These relationships, named as rent-seeking *guanxi* by Su and Littlefield (2001) involve back door deals and power dependence (Fan 2002; Su & Littlefield 2001). Ang and Leong's (2000) *guanxi* scale was developed to measure traditional Chinese people's relationships but not modern business relationships in China (Su et al. 2003). In this study, it is argued that rent-seeking *guanxi* should be included as part of the *guanxi* orientation scale. Thus another three items were identified to reflect modern business practices in China. These include: (1) back-door deals, (2) power exchange, and (3) bureaucratic privilege.

Thus in this study, Chinese auditors' levels of *guanxi* orientations are measured using a 12 item scale based on Ang and Leong's (2000) 9 item favour-seeking *guanxi* scale and three items constructed by the author concerned with rent-seeking *guanxi* orientations.

Construct validity confirms whether an instrument measures effectively what it is intended to measure. Research suggests that Principal Components factor analysis is useful for determining the fewest number of linear dimensions which account for the

observed correlation matrix (Dunteman 1989). It is also helpful in determining the appropriate number of dimensions or test scales contained in an instrument (Widaman 1993; Floyd & Widaman 1995) and the extent to which they overlap or are differentiated. Factor analysis, including a Varimax rotation of associated variables was used to establish construct validity in this study.

In applying factor analysis, eigenvalues greater than 1.00 and factor loadings greater than .05 are included as necessary conditions. Two factors which explain 60.74% of the variance were extracted. Items 1 to 6 and items 8 and 9 load significantly on factor 1 (with 46.54 % of the variance). Items 7 and items 10 to 12 load significantly on factor 2 (with 14.20% of the variance). Factor 1 contains eight items and is titled favour-seeking *quanxi* and factor 2 contains four items which is titled rent-seeking *quanxi*. Table 12 presents the results of the factor analysis.

Table 12
Eigenvalue, % of Variance, Factor Loadings of *Guanxi* Orientations

Factor1(Favour-seeking <i>guanxi</i>):	Factor	Factor2 (Rent-seeking <i>guanxi</i>):	Factor
	loadings		loadings
Eigenvalue: 5.585		Eigenvalue: 1.704	
% of Variance: 46.544 explained		% of Variance: 14.200 explained	
Maintaining a network - Item 1	.817	Gift giving - Item 7	.652
Knowing the right people - Item 2	.736	back-door deals - Item 10	.744
Developing the right contacts - Item 3	.872	power exchange - Item 11	.847
Building social relationships - Item 4	.787	bureaucratic privilege - Item 12	.846
Being in the 'inside' - Item 5	.585		
Returning favour for favour - Item 6	.600		
Maintaining relationships - Item 8	.630		
Keeping cooperation - Item 9	.535		

The item 7 (*gift giving*) was used to measure favour-seeking *guanxi* orientation in Ang and Leong's (2000) study but loaded on rent-seeking *guanxi* factor in the current study. This item is concerned with whether gift giving is an important element in business success (Ang & Leong 2000). The results of the factor analysis in this study is consistent with the findings reported in Millington et al.'s (2005) study. Their study found that gift giving was associated with illicit payments, corruption and the pursuit of self-interest. It indicates that the *gift giving* item shares similar characteristics with rent-seeking *guanxi*. Thus *gift giving* item remains in the rent-seeking *guanxi* subscale in this study.

In order to determine whether the scales overlapped, a correlation analysis between twelve items was undertaken. The details of correlation are shown in Table 13.

Table 13
Correlation among Items of *Guanxi* Orientations

	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	G11	G12
G2	.550**	1										
G3	.731**	.635**	1									
G4	.570**	.538**	.670**	1								
G5	.371**	.479**	.454**	.520**	1							
G6	.402**	.417**	.423**	.510**	.607**	1						
G7	.229**	.441**	.318**	.385**	.521**	.489**	1					
G8	.393**	.401**	.498**	.459**	.363**	.514**	.434**	1				
G9	.355**	.365**	.406**	.395**	.406**	.459**	.318**	.490**	1			
G10	.174**	.264**	.225**	.287**	.375**	.398**	.523**	.292**	.328**	1		
G11	.212**	.339**	.230**	.297**	.383**	.353**	.450**	.268**	.254**	.489**	1	
G12	.212**	.291**	.213**	.300**	.404**	.364**	.441**	.255**	.337**	.494**	.783**	1

** Correlation is significant at the 0.01 level (2-tailed).

High correlation coefficients suggest that the scales do not discriminate between each other and they are therefore measuring similar attributes. A degree of intercorrelation is to be expected between all 12 items, as they deal with a related issue. What is important here is the relative extent to which they are correlated. Results of correlation coefficients between eight items in factor I are highly correlated to each other while the correlations between these items to the items in factor 2 are not as strong. Similarly, the correlation coefficients between items in factor 2 are also highly correlated to each other while the correlations between these items to the items in factor 1 are not as strong. Thus the results suggest that the two sub-constructs are relatively independent. The 12 items *guanxi* orientations and the reliabilities of two sub-factors are shown in Table 14.

Table 14
Reliabilities of Chinese Auditors' *Guanxi* Orientations

<i>Guanxi</i> orientation items	
Favour-seeking <i>guanxi</i>:	Cronbach's Alpha .884
1. In business it is important to maintain a good network of relationships	
2. Doing business involves knowing the right people	
3. Developing the right contacts helps in the smooth running of a business	
4. One must always build and maintain social relationships with others in case their services are needed in the future	
5. Being in the 'inside' circle helps in obtaining preferential treatment	
6. Returning favor for favor is part of doing business	
7. Maintaining good relationships is the best way to enhance business	
8. Frequent cooperation reduces problems in business relationships	
Rent-seeking <i>guanxi</i>:	Cronbach's Alpha .818
1. Gift giving is an important aspect in business success	
2. In business, back-door deals are alright as long as everyone prospers	
3. Power exchange relationships are normal in Chinese business	
4. Using bureaucratic privilege is common practice in business	

Chinese auditors were asked to indicate their level of agreement with eight items favour-seeking *guanxi* and four items rent-seeking *guanxi* on a 9-point Likert scale. Responses ranged from strongly disagree (1) to strongly agree (9) (Refer Appendix D). For each respondent, the favour-seeking *guanxi* score was computed by summing the scores of all favour-seeking *guanxi* items together. The higher the score, the higher the favour-seeking *guanxi* orientation. Similarly rent-seeking *guanxi* orientations were computed using the same approach for all four rent-seeking *guanxi* items. An internal consistency test reveals that favour-seeking *guanxi* and rent-seeking *guanxi* had high reliabilities as shown in Table 14 above.

6.2.3 Chinese auditors' attitudes towards money

Following the discussions in Sections 2.5 and 5.2, Chinese auditors' attitudes towards money were measured using Tang and Chiu (2003) the *Love of Money Scale* (LMOS). The LMOS includes four components, (1) importance (2) success, (3) motivator, and (4) rich. Component 1, *importance*, has five items which are concerned with money as important and good. Component 2, *successes*, has four items which are concerned with money as one's successes and achievements, Component 3, *motivator*, has four items which are concerned with money as a motivator. Component 4, *rich*, has four items which are concerned with one's desire to be rich. Prior research suggests that the LMOS is a reliable and valid scale for measuring people's attitudes include Chinese sample (Du & Tang 2005).

In this study, respondents were asked to indicate levels of agreement with 17 items *Love of Money* on a 7-point Likert scale. The scale ranged from strongly disagree (1) to strongly agree (7). For each respondent, the scores of four dimensions of the LMOS were computed by adding the scores of all items in each dimension. A higher

score for the love of money indicates that respondents have stronger beliefs about the importance of money. An internal consistency test reveals high reliability. The 17 items *Love of Money* and the reliabilities of four dimensions are shown in Table 15.

Table 15
Reliabilities of Chinese Auditors' Attitudes towards Money

The Love of Money items	
Importance:	Cronbach's Alpha .837
1. Money is important	
2. Money is valuable	
3. Money is good	
4. Money is an important factor in the lives of all of us	
5. Money is attractive	
Success:	Cronbach's Alpha .869
1. Money represents one's achievement	
2. Money is a symbol of my success	
3. Money reflects my accomplishments	
4. Money is how we compare each other	
Motivator:	Cronbach's Alpha .866
1. I am motivated to work hard for money	
2. Money reinforces me to work harder	
3. I am highly motivated by money	
4. Money is a motivator	
Rich:	Cronbach's Alpha .849
1. Having a lot of money (being rich) is good	
2. It would be nice to be rich	
3. I want to be rich	
4. My life will be more enjoyable, if I am rich and have more money	

6.2.4 Firms' ethical cultures

As discussed in Section 5.2, Chinese auditors' beliefs about their firms' ethical cultures can be measured using Hunt et al. (1989) Corporate Ethical Values scale.

This scale has two components with five items. The first component has two items and they measure employees' perceptions of their managers' unethical behaviours. The second component has three items and they measure employees' perceptions of the punishment systems for ethical/unethical behaviours in their organisations.

Hunt et al.'s (1989) Corporate Ethical Values scale has been widely used in prior studies (see Douglas et al. 2001; Singhapakdi et al. 1999; Vitell & Hidalgo 2006). These studies used the average score of all five items to measure perceptions about corporate ethical values. However, Chinese auditors' beliefs about their firms' ethical cultures are measured in two dimensions because the scale was developed based on the different considerations and it can provide more details about subjects' views about their organisations' ethical cultures by using the sub-scales. In this study, Principal Components factor analysis with Varimax rotation was undertaken using the five-item instrument (refer Appendix D) to determine what underlying dimensions exist.

In applying factor analysis, eigenvalues greater than 1.00 and factor loadings greater than .05 are set as necessary conditions. Two factors explaining 76.59% of the variance were extracted. The items 3 to 5 load significantly on factor 1 (with 44.08 % of the variance) and named as *punishment systems*. The items 1 and 2 load significantly on factor 2 (with 32.51% of the variance) and named as *managers' unethical behaviours*. Table 16 presents the results of factor analysis.

Table 16
Eigenvalue, % of Variance, Factor Loadings of Firms' Ethical Cultures

Factor1(Punish systems):	Factor loadings	Factor2 (Managers' unethical behaviours):	Factor loadings
Eigenvalue: 2.204		Eigenvalue: 1.626	
% of Variance explained : 44.075		% of Variance explained : 32.511	
Punishment system 1 - Item 3	.867	Managers' unethical behaviour 1 - Item 1	.916
Punishment system 2 - Item 4	.860	Managers' unethical behaviour 2 - Item 2	.907
Punishment system 3 - Item 5	.740		

In order to determine whether the scales overlapped, a correlation analysis between twelve items is also undertaken. The details of correlation are shown in Table 17.

Table 17
Correlation among Items of Firms' Ethical Cultures

	MUE1	MUE2	P1	P2	P3
Managers' unethical behaviour 1 (MUE1)	1				
Managers' unethical behaviour 2 (MUE2)	.700**	1			
Punishment system 1 (P1)	-.300**	-.211**	1		
Punishment system 2 (P2)	.025	.051	.468**	1	
Punishment system 3 (P3)	-.099	-.094	.497**	.620**	1

** Correlation is significant at the 0.01 level (2-tailed).

Results of correlation coefficients between three items in the factor 1 *punishment systems* are highly correlated to each other and two items in the factor 2 *managers' unethical behaviours* are also highly correlated to each other. However, the two items of *managers' unethical behaviours* are not correlated to the item 2 and 3 of *punishment systems* even the correlations between them to the item 3 of *punishment systems* are relatively weak. Thus results suggest that the two sub-constructs are independent.

Respondents are asked to indicate their level of agreement with these 5 items of the corporate ethical values on a 7-point Likert scale (Refer Appendix D). Responses ranged from strongly disagree (1) to strongly agree (7). For each respondent, the value for each factor was computed by summing the scores of all items in each factor. A higher score for punish system factor indicates that respondents have stronger beliefs that an unethical behaviour will be punished in their firms. A higher score for managers' unethical behaviours indicates that respondents have stronger beliefs that their managers often engage in unethical actions. The 5 item corporate ethical values and the reliabilities of two factors are shown in Table 18.

Table 18
Reliabilities of Firms' Ethical Cultures

Corporate ethical values items	
Punishment systems: Cronbach's Alpha .771	
1.	Top management in my firm has let it be known that unethical behaviours will not be tolerated
2.	If a manager in my firm is discovered to have engaged in unethical behaviour that results primarily in personal gain (rather than firm gain), he or she will be promptly reprimanded
3.	If a manager in my firm is discovered to have engaged in unethical behaviour that results in firm gain (rather than personal gain), he or she will be promptly reprimanded
Managers' unethical behaviours: Cronbach's Alpha .824	
1.	Managers in my firm often engage in behaviours that I consider to be unethical
2.	In order to succeed in my firm, it is often necessary to compromise one's ethics

6.2.5 Ethical ideologies

Forsyth's (1980) Ethics Position Questionnaire (EPQ) is used to measure Chinese auditors' ethical positions (refer to Section 4.3.1). The EPQ, consisting of 20 items, includes two ten-item subscales; one measuring Idealism (questions 1 to 10) and the other measuring Relativism (questions 11 to 20). Respondents are asked to indicate

their level of agreement with the EPQ items on a 9-point Likert scale. Responses range from strongly disagree (1) to strongly agree (9). For each respondent, the Idealism score is computed by summing the scores of all items. A higher score indicates that respondents have higher idealist beliefs. Similarly, the Relativism score for each respondent is computed by summing the scores of all related items. A higher score indicates that respondents have higher relativist beliefs. An internal consistency test for responses in this study revealed high reliability (Cronbach's Alpha for idealism = .86; for relativism = .85).

6.2.6 Ethical judgments and intentions

The auditing ethical case used in this study was acquired from the *American Accounting Association* (1992) (see Roxas & Stoneback 1997) and modified to suit Chinese subjects, and was used to evaluate Chinese auditors' ethical judgments and intentions. This case was chosen because it deals with a common ethical dilemma in auditing. Finn et al.'s (1988 p. 606) study claims that... 'ethical conflict occurs when people perceive that their duties toward one group are inconsistent with their duties and responsibilities toward some other group (including one's self). In this study, an ethical conflict or dilemma arises in three different auditor-client conflict situations, (1) an auditor accepts a client's suggestion to alter the financial position, (2) an auditor rejects the client's suggestion and complies with accounting and professional standards, and (3) an auditor reaches a compromise. The details of the case and the questions are shown in Appendix D.

Respondents are required to read the case and then answer eight questions. The first two questions are concerned with an auditor's judgments about the ethical issues in

two aspects: (1) external concerns – the bank and creditors may be deceived if an auditor makes the changes suggested by the client, and (2) internal concerns – an auditor’s integrity will be compromised if he/she makes the changes suggested by the client. Respondents are asked to indicate their level of agreement with these two questions on a 7-point Likert scale. The scale ranged from strongly disagree (1) to strongly agree (7). Questions 3 to 5 are concerned with auditors’ judgments about three alternatives: (1) an auditor made the changes suggested by the client, (2) an auditor told the client that he/she cannot make the changes, and (3) an auditor reached a compromise. Respondents are asked to indicate their level of agreement with these three alternatives on a 7-point Likert scale (ranging from very unethical (1) to very ethical (7). The coefficient of Cronbach’s Alpha for ethical judgments is .74. Thus questions 1 to 5 are used to measure Chinese auditors’ ethical judgments. For each respondent, the ethical judgments score is computed by aggregating the scores of questions 1 to 5. Questions 3 and 5 are reversed before aggregating them because they measure respondents’ agreements on unethical behaviours. Thus a higher score of ethical judgments indicates respondents’ have a higher agreement on ethical behaviours.

The remaining three questions are concerned with auditors’ ethical intentions. Respondents are asked to indicate their level of intention regarding three possible actions, that is, if you were CPA Wong, (1) would you make the changes suggested by Mr. Li?, (2) would you tell Mr. Li that you could not make the changes?, and (3) would you tell Mr. Li about your concerns and reach a compromise? Again, responses are measured using a 7-point Likert scale (ranging from definitely would not (1) to definitely would (7). The coefficient of Cronbach’s Alpha for ethical

intentions for this study was .67. For each respondent, the ethical evaluation score is computed by summing the scores of questions 6 to 8 together. Questions 1 and 3 are reverse scored because they measure respondents' agreements on unethical actions. Thus a higher score for ethical intentions indicates respondents are more likely to follow through with their judgment about a situation.

6.2.7 Demographic variables

Respondents' demographic information includes gender, age, education, position, and work experience. Gender is measured by using a nominal scale, i.e., 1 represents male and 2 represents female. Age, education, position, and work experience are measured using an ordinal scale. The details of measurement for the demographic variables are given in Table 19 (Refer also to Appendix D).

Table 19
Demographic Information

Variables	Categories	Measurement sale
Gender	Male	1 = Male
	Female	2 = Female
Age:	20 – 30	1 = 20 – 30
	31 – 40	2 = 31 – 40
	41 – 50	3 = 41 – 50
	Above 50	4 = Above 50
Education:	Other	1 = Diploma
	Diploma	2 = Bachelor
	Bachelor	3 = Master
	Master	4 = PhD
	PhD	5 = Other
Position	Auditor	1 = Auditor
	Senior auditor	2 = Senior auditor
	Project manager	3 = Project manager
	Department managers	4 = Department managers
	Partner	5 = Partner
	Senior partner	6 = Senior partner
Experience	0 – 5	1 = 0 – 5
	6 – 10	2 = 6 – 10
	11 – 15	3 = 11 – 15
	16 – 20	4 = 16 – 20
	Over 20	5 = Over 20

6.3 Statistical Methods

6.3.1 Principal Components factor analysis

A Principal Components factor analysis is used to determine the underlying constructs for *guanxi* orientations and firms' ethical cultures in this study (refer Sections 6.2.2 and 6.2.4). A Varimax rotation was undertaken to maximise factor loadings for each variable. In applying factor analysis, eigenvalues over 1 were retained and loadings over .5 were included in each factor.

6.3.2 Descriptive statistics

Descriptive statistics were used to summarise and describe the data. First, frequency distributions were used to summarise the information about the respondents' backgrounds. Second, the mean and standard deviations were calculated to provide average values and measures of dispersion for each variable in the research model.

6.3.3 T-tests and analysis of variance (ANOVA)

The t-tests are used to compare Chinese auditors' values. One sample and independence sample t-tests were used in this study. One sample t-test is used to compare the means of Chinese auditors' values to the mid-point value of each scale. For example, Chinese auditors' traditional cultural values are measured using a 9-point Likert scale then the test value is the middle point value 5. Similarly, Chinese auditor' attitudes towards money are measured using a 7-point Likert scale then the test value is the middle point value 4. Independent sample t-tests were used to compare Chinese auditors' values to the means of other subjects from prior studies. Analysis of variance (ANOVA) was also used to identify any differences in Chinese auditors' mean scores across demographic variables. These three statistical methods were used to help address the first research question for this study: What are Chinese auditors' values?

6.3.4 Correlation analysis and linear regressions

Correlation is used to examine the relationship between variables in the research model. Bivariate correlations and Pearson correlation coefficients are used in this

study. This statistic method is used to provide additional evidence about the relationships between independent and dependent variables.

Stepwise linear regression analysis was used to investigate the causal relationships between the independent and dependent variables identified in Section 5.2 and answer the following research questions:

1. How do Chinese cultural values impact ethical ideologies (i.e., Idealism and Relativism) as they apply to practicing auditors?
2. Do identifiable ethical ideologies, adopted by auditors, influence the decision-making process in issues relating to audit independence? In particular, ethical judgments and intentions.
3. How do certain contextual matters, namely firms' ethical culture and personal factors influence ethical ideologies?

6.3.5 Testing assumptions

The underlying assumptions underlying statistical analysis include normality, linearity, and homoscedasticity. These tests were included in the analysis of data used in this study. These are discussed in Chapter 7.

Conclusion

This Chapter discussed the research method for this study and measures for each variable in the research model. A survey was used in this study. The survey instrument includes a self-administered questionnaire and a short auditing ethical case. Chinese auditors' beliefs about their national cultural values are measured using the Chinese Cultural Values (CVS) used in the Chinese Culture Connection (1987).

Chinese auditors' *guanxi* orientations are measured using a 12 item scale based on Ang and Leong's (2000) 9 items favour-seeking *guanxi* scale and three items constructed by the author concerned with rent-seeking *guanxi* orientations. Chinese auditors' attitudes towards money are measured using Tang and Chiu's (2003) the *Love of Money Scale* (LMOS) scale. Chinese auditors' beliefs about their firms' ethical cultures were measured using Hunt et al.'s (1989) corporate ethical values scale. Chinese auditors' ethical ideologies were measured using Forsyth's (1980) ethical position questionnaire (EPQ). Chinese auditors' ethical judgments and intentions are measured using an auditing case. The major statistical methods used in this study are descriptive, t-tests, correlations, and regressions.

Results of this study are presented in the following Chapter.

Chapter 7

Results of the Study

The objective of this Chapter is to interpret the results of this study. It has six parts. Part 1 provides descriptive details of respondents' background information. Part 2 provides the results of Chinese auditors' values, including the descriptives for all independent variables in the research model and the results of t-tests and ANOVA for Chinese auditors' values. Part 3 provides the results of Chinese auditors' ethical ideologies. Part 4 provides the results of auditing firms' ethical cultures. Part 5 provides the results of correlations between the variables. Part 6 provides the results of the causal relationships between the independent and dependent variables in the research model.

7.1 Details of respondents' background information

There are three hundred and twenty-five (325) useable responses in this study with equal proportions of males and females. Eighty-four percent (84%) of respondents are aged between 20 to 40 years and 16% are older than 41. The average of respondent age is 33 years. Two hundred and five respondents (64%) have a Bachelors degree, 102 (32%) an Accounting Diploma, and 11 (5%) a Masters degree. No respondents hold a PhD degree. Respondents included 201 auditors (58%), 110 department and project managers (32%), and 35 partners and senior partners (10%). One hundred and seventy-six (54.2%) respondents have between one to five years auditing work experience, one hundred and two (31.4%) auditors have more than five but less than ten years work experience, and forty-six (14.1%) respondents have

more than ten years work experience. Details of respondents' background information for this study are shown in Table 20.

Table 20
Respondents' Background Information

		Frequency	Percent
Gender:	Male	162	49.8
	Female	163	50.2
	Total	325	100
Age:	20 – 30	144	44.3
	31 – 40	128	39.4
	41 – 50	24	7.4
	Above 50	29	8.9
	Total	325	100
Education:	Accounting Diploma	102	31.4
	Bachelors degree	205	63.1
	Masters	11	3.4
	PhD	0	0
	Other	5	1.5
	Missing	2	.6
	Total	325	100
Positions:	Auditor	154	47.4
	Senior auditor	36	11.1
	Project manager	74	22.8
	Department managers	27	8.3
	Partner	19	5.8
	Senior partner	14	4.3
	Missing	1	.3
	Total	325	100
Audit	0 – 5	176	54.2
Experience:	6 – 10	102	31.4
	11 – 15	38	11.7
	16 – 20	4	1.2
	Over 20	4	1.2
	Missing	1	.3
	Total	325	100

The following section provides the results of descriptive analysis and t-tests of Chinese auditors' values and the results of Chinese auditors' values across demographic variables. The data analysis has four steps. First, it provides the means and standard deviations of all variables in the research model. Second, it compares the mean scores of Chinese auditors' values to the mid-point value of each scale. Third, it compares the mean scores of cultural values between Chinese auditors' values and other subjects from prior studies. Fourth, it compares the mean scores of Chinese auditors' values across demographic variables.

Population normality and homogeneity of variance are the assumptions required when using a t-test and ANOVA (Coakes et al. 2006). A normal probability plot is used for testing the normality assumption and Levene's test for equality of variances is used for testing the homogeneity of variance assumption. Due to a lack of raw data from prior studies, the homogeneity of variance between the groups (subjects from the current study and prior studies) are assumed to be unequal. The details of results follow.

7.2 Results of Chinese auditors' values

7.2.1 Results of Chinese auditors' traditional cultural values

7.2.1.1 Results of descriptives and t-test

The underlying assumptions are tested by using the normal probability plot. Each observed value is paired with its expected value from the normal distribution. If the sample is from a normal distribution, then the cases fall more or less in a straight line. Figure 5 shows the normal probability plots for the five components of Chinese

traditional cultures. The actual data distributions suggest that the normality assumptions for these five components of Chinese traditional cultures are met.

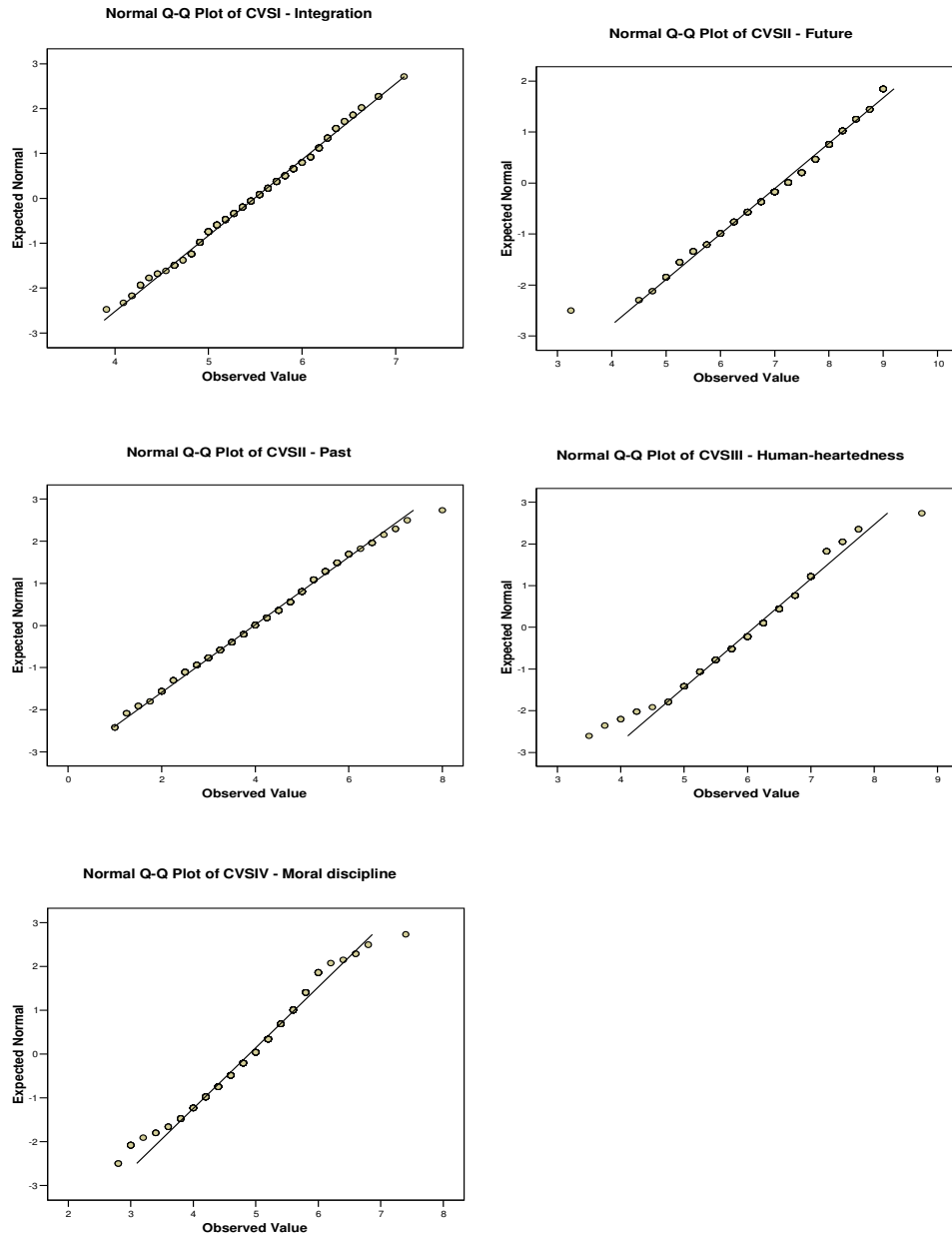


Figure 5: Normal Q-Q Probability Plots of Chinese Cultural Values

The results of the overall mean scores, standard deviations, and one-sample t-test for Chinese auditors' traditional cultural values are shown in Table 21. Results show that the overall mean scores of Chinese auditors' traditional cultural values in CVS_I (Integration), CVS_{III} (Human-heartedness), CVS_{III}F (Confucian Work dynamism future orientation) are significantly higher than the mid-point value 5 at the 1% significance level. Results also show that Chinese auditors' traditional cultural values in CVS_{IV} (Moral discipline) dimension are significantly higher than the mid-point value 5 at the 5% significance level. Moreover, results show that the overall mean score of Chinese auditors' traditional cultural values in CVS_{III}P (Confucian Work dynamism past orientation component) are significantly lower than the mid-point value 5 of the scale at the 1% significance level.

Table 21
Descriptive and One-Sample t-test about Traditional Cultural Values

	Mean*	SD	t	Sig.
CVS _I - Integration	5.489	.591	14.357	.000
CVS _{III} F - Confucian work dynamism (Future orientation)	7.127	1.122	33.998	.000
CVS _{III} P - Confucian work dynamism (Past orientation)	3.978	1.246	-14.675	.000
CVS _{III} - Human-heartedness	6.108	.768	25.917	.000
CVS _{IV} - Moral discipline	4.895	.719	-2.583	.010

*The grand average of individual item scores along a nine-point scale

Chinese auditors' traditional cultural values are not compared to other subjects in this study due to a lack of information from prior studies.

7.2.1.2 Results of traditional cultural values across demographics

Chinese auditors' traditional cultural values are compared across demographic information. Levene's tests for the equality of variances for traditional cultural values

are not significant, thus the population variances for each group are approximately equal meaning that the homogeneity of variance assumption is met.

An independent sample t-test is used to compare male and female Chinese auditors' values. Results show that there is no significant difference between males and females in respect of Chinese traditional cultural values. A one-way ANOVA is used to compare Chinese auditors' traditional cultural values across age, education, position, and experience. The significant differences of Chinese auditors' traditional cultural values across demographic variables are shown in Table 22.

Table 22
Multiple Comparisons of Chinese Cultural Values across Demographics

	Mean	Std.	95% Confidence Interval		
	Difference	Error	Sig.	Lower	Upper
CVS _I - Integration:					
Age: 20-30 v. 50 above	-.209*	.076	.031	-.406	-.013
CVS _{III} - Human-heartedness:					
Age: 20-30 v. 31-40	.214*	.064	.005	.048	.380
Experience: 0-5 v. 6-10	.185*	.066	.042	.004	.366
CVS _{III} - Future orientations:					
Bachelor v. Master	-.597*	.221	.036	-1.168	-.026

* The mean difference is significant at the .05 level.

Results show that Chinese auditors' traditional cultural values in CVS_{III} (Confucian Work dynamism past orientation) and CVS_{IV} (Moral discipline) dimensions are not significant different across age, education, position, and experience. However, Chinese auditors' traditional cultural values in CVS_I (Integration) dimension have a significant difference between the age groups 20-30 to 50 above at the 5%

significance level. This result indicates that young auditors have a lower mean score than older auditors in the Integration dimension. Results also show that Chinese auditors' traditional cultural values in CVS_{III} (Human-heartedness) dimension are significantly different between the age groups 20-30 to 31-40 and experience from 0-5 years to 6-10 years at the 5% significance levels. These results indicate that young and less experience auditors have lower mean scores than older and experienced auditors in CVS_{III} (Human-heartedness) dimension. Moreover, Chinese auditors' traditional cultural values in CVS_{IIIF} (Confucian Work dynamism future orientation) component show a significant difference between holders of Bachelor and Master Degrees. Result show that auditors who hold a Master degree have a lower mean score than those who hold a Bachelor degree in the Confucian Work dynamism future orientations construct.

7.2.2 Results of Chinese auditors' *guanxi* orientations

7.2.2.1 Results of descriptives and t-test

The results of the normal probability plot of Chinese auditors' *guanxi* orientations are shown in Figure 6. The actual data distributions suggest that the normality assumption is met.

Table 23 presents the overall mean scores and standard deviations for Chinese auditors' favour-seeking and rent-seeking *guanxi* orientations. Results of the one sample t-test show that the mean scores of both favour-seeking and rent-seeking *guanxi* orientations are significantly higher than the mid-point value 5 at the 1% significance level.

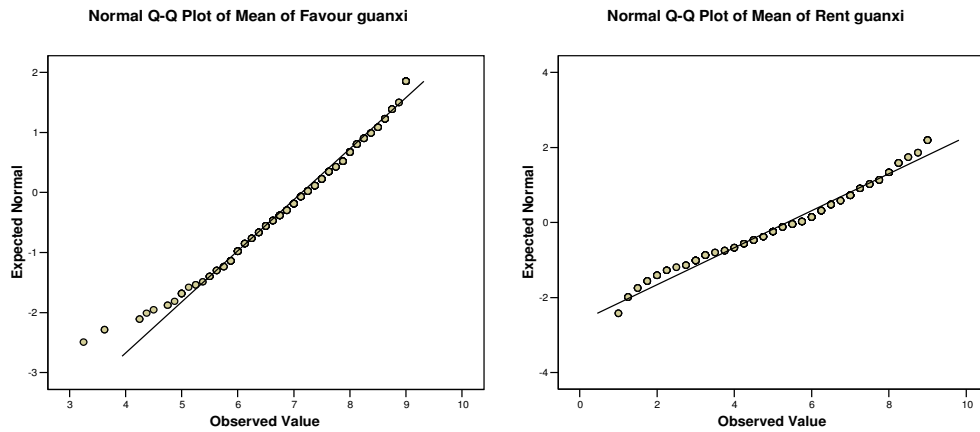


Figure 6: Normal Q-Q Probability Plots of *Guanxi* Orientations

Table 23
Descriptive and One-Sample t-test about *Guanxi* Orientations

	Mean*	SD	t	Sig.
<i>Guanxi</i> orientations:				
Favour-seeking <i>guanxi</i>	7.141	1.174	32.252	.000
Rent-seeking <i>guanxi</i>	5.360	2.028	3.168	.002

*Represents the grand mean for variables items along a nine-point scale

Table 24 presents the comparative results about favour-seeking *guanxi* orientations between Chinese auditors and business students from Hong Kong, Singapore, Hawaii, and Canada as reported by Ang and Leong (2000) and Ang (2000). Results of an independent sample t-test show that Chinese auditors' favour-seeking *guanxi* orientations are significantly lower than those of business students from Hong Kong and Singapore as reported in Ang and Leong's (2000) study at the 1% significance level. Results also show that Chinese auditors' favour-seeking *guanxi* orientations are lower than subjects from Singapore, Canada, and Hawaii reported by Ang (2000)

at the 1% significance level but that there are no significant differences for Hong Kong students.

Table 24
Independence Sample t-test about Favour-seeking *Guanxi*

Studies	Subjects	N	Mean	SD
Current study	Chinese auditors	313	7.1	1.2
Ang and Leong (2000)	Hong Kong business students	75	8.0**	2.6
	Singapore business students	102	7.8**	2.8
Ang (2000)	Hong Kong business students	393	7.2	-*
	Singapore business students	393	7.5**	-
	Hawaii business students	393	7.4**	-
	Canada business students	393	7.8**	-

* No standard deviation data available in Ang's (2000) study

** Significantly different from current study at $p < .01$

There are no comparative results for rent-seeking *guanxi* as this aspect has not been considered in any prior studies.

7.2.2.2 Results of *guanxi* orientations across demographics

Chinese auditors' *guanxi* orientations are also compared using demographic information. Levene's tests for equality of variances for *guanxi* orientations are not significant, thus the homogeneity of variance is met.

An independent sample t-test statistical method is used to compare male and female Chinese auditors' *guanxi* orientations. Results show that male auditors have a significantly higher mean score for rent-seeking *guanxi* orientations than female auditors at the 5% significance level ($t = 2.191$; $\text{sig.} = .029$).

The one-way ANOVA is used to compare Chinese auditors' *guanxi* orientations across age, education, position, and experience. Significant outcomes are given in Table 25. Results show that there is no significant difference for Chinese auditors' favour-seeking *guanxi* orientations across demographic variables. However, auditors' rent-seeking *guanxi* orientations are significantly different between the age groups 20-30 and 50 above and experience from 0-5 years to 6-10 years at the 5% significance levels. Results suggest that young and less experienced auditors are more likely to use rent-seeking *guanxi* than older and experienced auditors.

Table 25
Multiple Comparisons of Rent-seeking *Guanxi* across Demographics

	Mean	Std.	95% Confidence Interval		
	Difference	Error	Sig.	Lower	Upper
Rent-seeking <i>guanxi</i>:					
Age: 20-30 v. 50 above	.472*	.164	.023	.047	.897
Experience: 0-5 v. 11-15	.398*	.143	.046	.005	.791

* The mean difference is significant at the .05 level.

7.2.3 Results of Chinese auditors' attitudes towards money

7.2.3.1 Results of descriptives and t-test

The results of the normal probability plot of Chinese auditors' attitudes towards money is shown in Figure 7. The actual data distributions suggest that the normality assumption is met. The overall mean scores and standard deviations of Chinese auditors' attitudes towards money are shown in Table 25. Results of the one sample t-test show that the overall mean scores of Chinese auditors' attitudes towards money in the 'importance of money' and *rich* dimensions are significantly higher than the mid-point value 4 at the 1% significance level. However, their attitudes towards

money in the success and *motivator* dimensions are not significantly higher than the mid-point value.

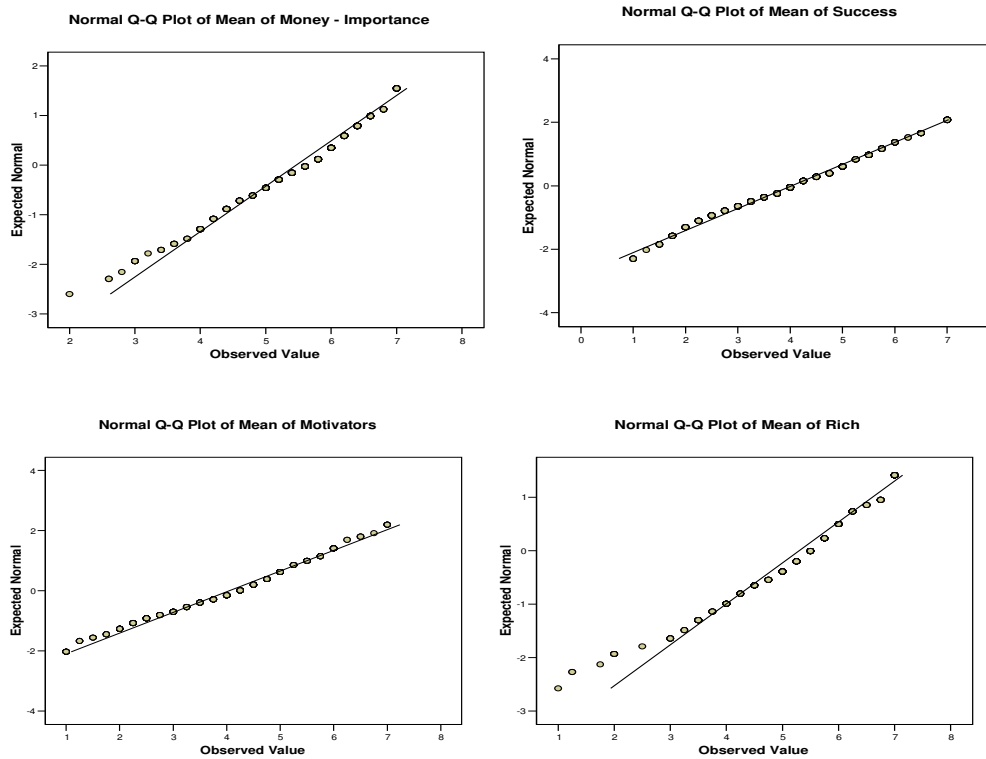


Figure 7: Normal Q-Q Probability Plots of Attitudes towards Money

Table 26
Descriptive and One-Sample t-test about Attitudes towards Money

	Mean*	SD	t	Sig.
Importance	5.465	1.094	23.878	.000
Success	4.029	1.438	.359	.720
Motivator	4.036	1.454	.450	.653
Rich	5.297	1.304	17.138	.000

* The grand average of individual item scores along a nine-point scale

Table 27 presents the comparative results of attitudes towards money between Chinese auditors in this study and Hong Kong employees in Tang and Chiu's (2003)

study. Results of the independent sample t-test show that Chinese auditors' attitudes towards money in the four dimensions are significantly higher than Hong Kong employees at the 1% significance level.

Table 27
Descriptive and Independent Sample t-tests about the *Love of Money*

	Current study			Tang and Chiu (2003)			t
	N	Mean	SD	N	Mean	SD	
Importance	317	5.47**	1.094	211	4.1	.57	16.742
Success	321	4.03**	1.438	211	2.96	.91	9.615
Motivator	323	4.04**	1.454	211	3.45	.82	5.362
Rich	297	5.3**	1.304	211	4.03	.68	12.949

* The grand average of individual item scores along a seven-point scale

** Significantly different from the current study at $p < .01$

7.2.3.2 Attitudes towards money across demographics

Chinese auditors' attitudes towards money are also compared using demographic information. Levene's tests for equality of variances for attitudes towards money are not significant, thus that the homogeneity of variance requirement is met.

An independent sample t-test statistical method is used to compare male and female Chinese auditors' attitudes towards money in the four dimensions: *importance*, *success*, *motivator*, and *rich*. Results show that there is no significant difference between male and female auditors' attitudes towards in the *importance*, *success*, and *motivator* dimensions. However, results show that male auditors had a significant higher mean score in the *rich* dimension than female auditors at the 5% significance level ($t = 2.266$; $\text{sig.} = .024$).

ANOVA is used to compare Chinese auditors' attitudes towards money across age, education, position, and work experience. The details of results are given in Table 28. Results show that there is no significant differences for Chinese auditors' attitudes towards money across education, experience, and position. However, attitudes towards money in the success and motivator dimensions are significantly different among the three age groups 20-30, 31-40, and 50 above at the 5% significance levels. These results suggest that young auditors have significantly higher mean scores in the success and motivator dimensions than older auditors.

Table 28
Multiple Comparisons of Attitudes towards Money across Demographics

	Mean	Std.	95% Confidence Interval		
	Difference	Error	Sig.	Lower	Upper
Success:					
Age: 20-30 v. 50 above	.497	.172	.022	.051	.943
31-40 v. 50 above	.507	.174	.020	.057	.959
Motivator:					
Age: 20-30 v. 50 above	.651	.171	.001	.209	1.093
31-40 v. 50 above	.630	.172	.002	.184	1.077

7.3 Results of Chinese auditors' ethical ideologies

This section provides the results of descriptives and t-tests for Chinese auditors' ethical ideologies and comparisons across demographic variables. The data analysis has four steps. First, it provides the means and standard deviations of Chinese auditors' ethical ideologies and results of t-tests. Second, it compares the mean scores between Chinese auditors and other subjects from prior studies. Third, it compares the mean scores of Chinese auditors' values across demographic variables.

7.3.1 Results of descriptive and t-test

Figure 8 presents the normal probability plots of Idealism and Relativism. The actual data distributions suggest that the normality assumptions of using t-tests for both variables have not been violated.

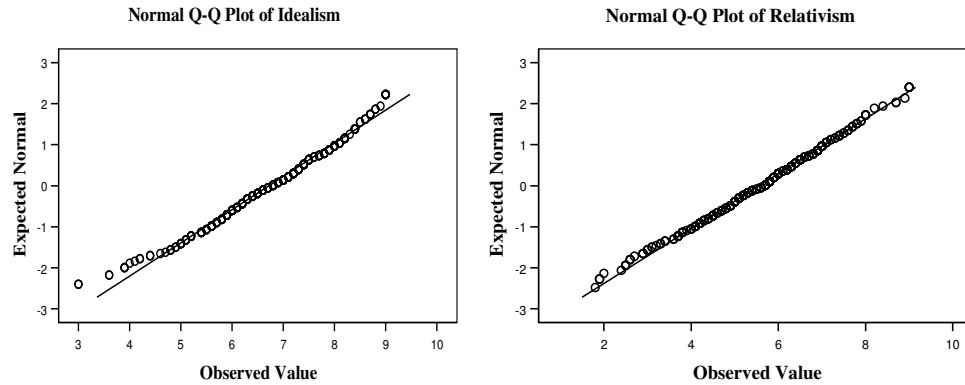


Figure 8: Normal Q-Q Probability Plots of Idealism and Relativism

Descriptive results presented in Table 29 show that the overall mean scores and standard deviations for Idealism are 6.724 and 1.236, and for Relativism 5.560 and 1.494 respectively. The results of the one sample t-test show that Chinese auditors' ethical ideologies are significantly higher than the mid-point value 5 at the 1% significance level in both idealism and relativism dimensions.

Table 29
Descriptive and One-Sample t-test about Ethical Ideologies

	Mean*	SD	t	Sig.
Idealism	7.724	1.236	24.321	.000
Relativism	5.560	1.494	6.536	.000

* The grand average of individual item scores along a nine-point scale

An independent sample t-test was also conducted to examine Chinese auditors' ethical positions by comparing them to American subjects based on the results of prior studies. Table 30 presents the comparative results of Chinese auditors' ethical ideologies and their counterparts. Results show that Chinese auditors' idealist positions are significantly higher than American subjects from the auditing, marketing, and management industries at the 1% significance levels. Results also show that Chinese auditors hold stronger idealist beliefs than Chinese managers although they share the same national boundaries. Comparative results for Relativism show that Chinese auditors' relativist positions are significantly higher at the 1% significance level than American subjects from the auditing, marketing, and management industries but not to Chinese managers.

Table 30
Ethical Ideology scores for prior studies compared to results of current study

Studies	Subjects	N	Mean	SD	t
Idealism:					
Shaub et al. (1993)	American auditors	257	5.56	1.27	10.937**
Douglas et al. (2001)	American auditors	304	5.72	1.39	9.374**
Singhapakdi et al. (1994)	American marketers	498	6.137	1.473	5.771**
Lee and Sirgy (1999)	American managers	184	6.40	1.71	14.272**
Redfern (2005)	Chinese managers	205	6.35	1.357	3.183**
Relativism:					
Shaub et al. (1993)	American auditors	257	4.67	1.37	7.301**
Douglas et al. (2001)	American auditors	304	4.97	1.36	5.092**
Singhapakdi et al. (1994)	American marketers	498	4.658	1.404	8.614**
Lee and Sirgy (1999)	American managers	184	5.23	1.52	10.851**
Redfern (2005)	Chinese managers	205	5.72	1.212	-1.305

** Significantly different from current study at $p < .01$.

A 7-point Likert scale is used in Shaub et al.'s (1993) and Lee and Sirgy's (1999) studies. The mean and standard deviation scores from these studies are converted from a 7-point scale into a 9-point Likert scale by the author.

7.3.2 Results of ethical ideologies across demographics

Chinese auditors' ethical ideologies are also compared using demographic information. Levene's tests for equality of variances for attitudes towards money are not significant, thus the homogeneity of variance requirement is met.

An independent sample t-test was used to compare male and female Chinese auditors' ethical ideologies. Results show that there is no significant difference between idealist positions, for however, they do show that males hold stronger relativist positions than females at the 5% significance level ($t = 2.323$; $\text{sig.} = .021$).

A one-way ANOVA was used to compare Chinese auditors' ethical ideologies across age, education, position, and experience. Results show that there is no significant difference for Chinese auditors' ethical ideologies across age, education, and experience. However, results show that Chinese auditors' scores for Relativism are significantly different between the groups: the lower positions of auditors to department managers and auditors to partners, at the 5% significance levels. Results suggest that the lower positioned auditors are less relativistic than their managers and their firms' partners. The significant results are given in Table 31.

Table 31
Multiple Comparisons of Ethical Ideologies across Demographics

	Mean	Std.	95% Confidence Interval		
	Difference	Error	Sig.	Lower	Upper
Relativism:					
Auditor v. Department managers	-.394	.132	.037	-.775	-.015
Auditor v. Partners	-.461	.154	.036	-.903	-.018

Redfern and Crawford (2004) and Redfern (2005) suggest that Chinese managers' ethical ideologies differ between regions. In an earlier study (2004), they found that Chinese managers in the South score significantly higher on Idealism than Chinese managers in the North. Redfern (2005) found that Chinese managers in the more industrialised regions score significantly higher for both Idealism and Relativism than Chinese managers in low industrialised regions. However, results of regional comparisons in the current study show that there is no differences in subjects' ethical ideologies.

7.4 Results of firms' ethical cultures

This section provides the results of descriptives and t-tests for the factor, auditing firms' ethical cultures and the comparative results of auditors' beliefs about these cultures across demographic variables. The analysis involves four steps. First, it provides the means and standard deviations of auditors' beliefs about their firms' ethical cultures and results of t-tests. Second, it compares the mean scores of auditors' beliefs about their firms' ethical cultures to the mean scores of subjects from prior studies. Third, it compares the mean scores of auditors' beliefs about their firms' ethical cultures across demographic variables.

7.4.1 Descriptives and t-tests

Figure 9 presents the normal probability plots of managers' ethical behaviours and punish systems. The actual data distributions suggest that the normality assumptions of using t-tests for both managers' ethical behaviours and reward/punish systems have been met.

The overall mean scores and standard deviations of Chinese auditors' beliefs about their managers' unethical behaviours and their firms' reward/punish systems are shown in Table 32. Results of the one sample t-test show that the overall mean scores of Chinese auditors' beliefs about their managers' unethical behaviours and their firms' reward/punish systems are significantly higher than the mid-point value 4 at the 1% significance levels.

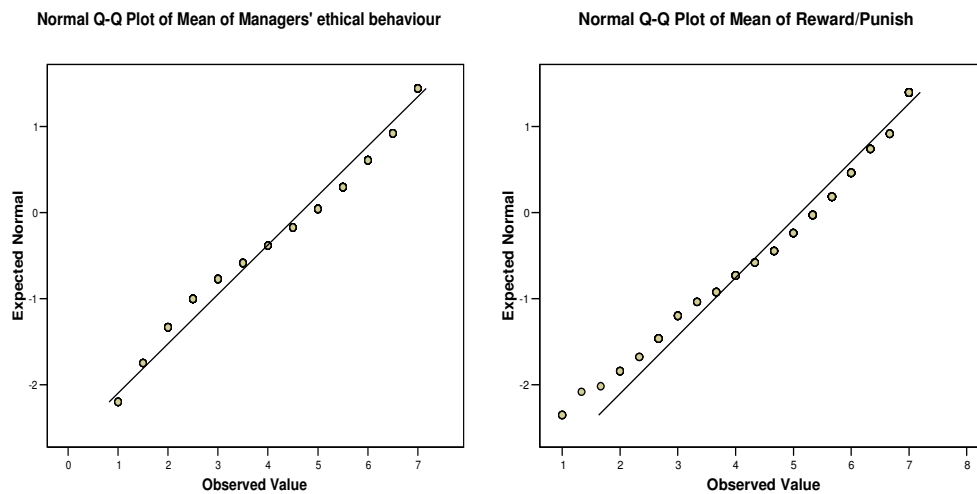


Figure 9: Normal Q-Q Probability Plots of Firms' Ethical Cultures

Table 32
Descriptive and One-Sample t-test about Firms' Ethical Cultures

	Mean*	SD	t	Sig.
Managers' unethical behaviours	4.654	1.743	6.723	.000
Reward/Punish systems	5.122	1.486	13.493	.000

* The grand average of individual item scores along a seven-point scale

Table 33 presents the comparative results of Chinese auditors' beliefs about their firms' ethical cultures to prior studies. As mentioned in Section 6.2.4, prior studies used a single factor model to measure subjects' beliefs about organisational ethical cultures. Therefore, to allow a meaningful comparison, average responses given with respect to all five items were calculated. Results show that the overall mean score of Chinese auditors' beliefs about their firms' ethical cultures is significantly lower than American subjects working in the auditing, management, and marketing industries at the 1% significance level.

Table 33
Prior study comparison of descriptives and independent sample t-tests for
Firms' Ethical Cultures

	Subjects	N	Mean	SD	t
Current study	Chinese auditors	317	4.93	1.204	
Douglas et al. (2001)	American auditors	304	6.97**	1.26	-20.632
Paolillo and Vitell (2002)	American managers	235	5.59**	1.22	-6.322
Hunt et al. (1989)	American marketing managers, researchers, and advertising agency managers	1246	5.40**	1.18	-6.306

** Significantly different from the current study at $p < .01$

7.4.2 Results of firms' ethical cultures across demographics

Chinese auditors' beliefs about their firms ethical cultures are also compared using demographic information. An independent sample t-test was used to compare male and female auditors' beliefs about their firms' ethical cultures. Results show that there is no significant difference in scores between male and female auditors.

A one-way ANOVA was used to compare Chinese auditors' beliefs about their firms' ethical cultures across age, education, position, and experience. Results show that there is no significant differences across age, education, and experience. However, results show that auditors' beliefs about their managers' unethical behaviours are significantly different between junior auditors to partners and senior auditors to partners at the 5% significance levels. Results suggest that junior and senior auditors are less likely to perceive their managers had unethical behaviours than partners. The significant results are given in Table 34

Table 34
Multiple Comparisons of Firms' Ethical Cultures

		Mean	Std.	95% Confidence Interval		
		Difference	Error	Sig.	Lower	Upper
Managers' unethical behaviours:						
Auditor	Partner	-.699	.221	.021	-1.333	-.064
Senior auditor	Partner	-.823	.257	.020	-1.561	-.082

7.5 Results of correlations

7.5.1 Correlations between cultural values and ethical ideologies

The underlying assumptions when using a correlation statistical method are normality, linearity, and homoscedasticity. Normality assumptions for all variables have already been reported as being met. Linearity and homoscedasticity assumptions were tested by examining scatterplots of the variables. The results of scatterplots show that the linearity assumptions have not been violated. Results also show that the scores cluster uniformly around the regression lines, satisfying the assumption for homoscedasticity.

A bivariate Pearson product-moment correlation was conducted to examine the correlations between traditional cultural values and ethical ideologies. The Pearson correlation coefficients between the variables are shown in Table 35. Results show that Idealism is positively correlated to CVS_I (Integration), CVS_{IIF} (Confucian work dynamism future orientation), CVS_{III} (Human-heartedness), and CVS_{IV} (Moral discipline) at the 1% significance levels but negatively correlated to CVS_{IIP} (Confucian Work dynamism past orientation) at the 1% significance level. Results also show that Relativism is positively correlated to CVS_I (Integration) and CVS_{III} (Human-heartedness) at the 1% significance levels, to moral discipline at the 5% significance level, but did not correlate to CVS_{IIF} (Confucian Work dynamism future orientation).

Table 35
Correlations between Traditional Cultural Values and Ethical Ideologies

	1	2	3	4	5	6	7
1. Idealism	1						
2. Relativism	.175**	1					
3. CVS _I	.349**	.237**	1				
4. CVS _{II} Future	.459**	.096	.547**	1			
5. CVS _{II} Past	-.455**	-.332**	-.609**	-.608**	1		
6. CVS _{III}	.340**	.152**	.473**	-.643**	-.438**	1	
7. CVS _{IV}	.170**	.135*	.046	-.170**	.245**	.033	1

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level

7.5.2 Results of *guanxi* orientations and ethical ideologies

A bivariate Pearson product-moment correlation was conducted to examine the correlations between *guanxi* orientations and ethical ideologies. The Pearson correlation coefficients between the variables are shown in Table 36.

Table 36
Correlations between *Guanxi* Orientations and Ethical Ideologies

	1	2	3	4
1. Idealism	1			
2. Relativism	.175**	1		
3. <i>Guanxi</i> - Favour	.209**	.323**	1	
4. <i>Guanxi</i> - Rent	-.089	.391**	.536**	1

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level

Results show that Idealism is positively correlated to favour-seeking *guanxi* at the 1% significance level but does not correlate to rent-seeking *guanxi*. Results also show that Relativism positively correlates to both favour-seeking and rent-seeking *guanxi* orientations at the 1% significance levels.

7.5.3 Results of attitudes towards money and ethical ideologies

A bivariate Pearson product-moment correlation was conducted to examine the correlations between attitudes towards money and ethical ideologies. The Pearson correlation coefficients between the variables are shown in Table 37. Results show that Idealism does not correlate to any dimensions of attitudes towards money. However, Relativism positively correlates to the *success* and *motivator* dimensions at the 1% significance levels and correlates to the importance and rich dimensions at the 5% significance levels.

Table 37
Correlations between Attitudes towards Money and Ethical Ideologies

	1	2	3	4	5	6
1. Idealism	1					
2. Relativism	.175**	1				
3. Importance	.091	.128*	1			
4. Success	.055	.288**	.465**	1		
5. Motivator	-.017	.254**	.486**	.692**	1	
6. Rich	.070	.153*	.624**	.480**	.546**	1

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level

7.5.4 Results of firms' ethical cultures and ethical ideologies

A bivariate Pearson product-moment correlation was conducted to examine the correlations between attitudes towards money and ethical ideologies. The Pearson correlation coefficients between the variables are shown in Table 38.

Table 38
Correlations between Firms' Ethical Cultures and Ethical Ideologies

	1	2	3	4
1. Idealism	1			
2. Relativism	.175**	1		
3. Managers' unethical behaviours	-.014	.282**	1	
4. Reward/Punish systems	.208**	.034	-.145**	1

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level

Results show that Idealism positively correlate to the variable firms' punish systems at the 1% significance level but does not correlate to managers' unethical behaviours.

Results also show that Relativism positively correlates to managers' unethical behaviours at the 1% significance level but does not correlate to the variable firms' punish systems.

7.5.5 Results of demographics and ethical ideologies

A bivariate Pearson product-moment correlation was conducted to examine the correlations between demographic information and ethical ideologies. The Pearson correlation coefficients between the variables are shown in Table 39.

Table 39
Correlations between Demographics and Ethical Ideologies

	1	2	3	4	5	6	7
1. Idealism	1						
2. Relativism	.175**	1					
3. Gender	-.003	-.133*	1				
4. Age	.139*	-.041	-.020	1			
5. Education	.068	.039	.032	-.096	1		
6. Position	.003	.127*	-.081	.402**	.026	1	
7. Experience	.090	.017	-.007	.546**	.050	.646**	1

** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level

Results show that Idealism positively correlated to age at the 5% significance level. Results also show that Relativism positively correlates to position at the 5% significance level but negatively correlates to gender. Results suggest that older auditors are more idealistic than younger auditors that male auditors are more relativistic than female auditors, and auditors who are in high positions are more likely to be relativists than auditors in low positions.

7.5.6 Ethical ideologies and ethical judgments and intentions

The results of normality tests for ethical judgments and ethical intentions are reported in this section. Figure 10 presents the normal probability plots for ethical judgments and ethical intentions. The actual data distributions suggest that the normality assumptions have not been violated.

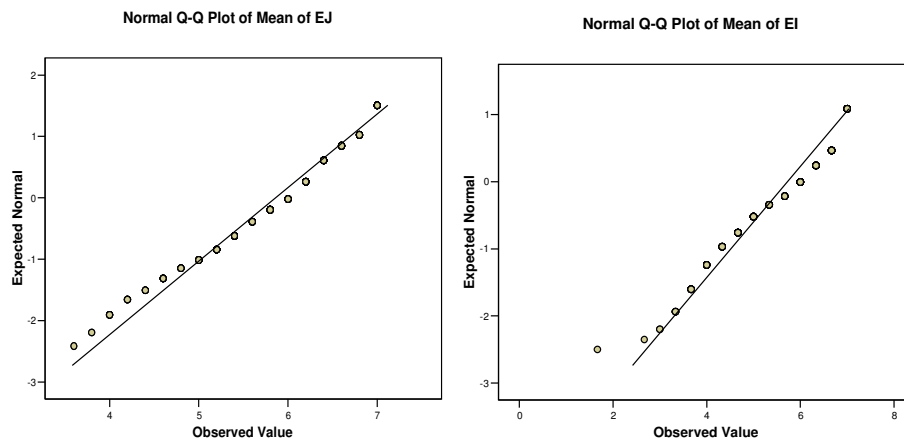


Figure 10: Normal Q-Q Probability Plot of Ethical Judgments and Intentions

A bivariate Pearson product-moment correlation was conducted to examine the correlations between ethical ideologies and ethical judgments and intentions. The results are shown in Table 40 and demonstrate that Idealism positively correlates to ethical judgments at the 5% significance level but does not correlate to ethical intentions. Results also show that Relativism negatively correlates to ethical judgments at the 5% significance level and negatively correlates to ethical intentions at the 1% significance level.

Table 40
Correlations between Ethical Ideologies and Ethical Judgments and Intentions

	1	2	3	4
1. Idealism	1			
2. Relativism	.175**	1		
3. Judgments	.159*	-.143*	1	
4. Intentions	.077	-.189**	.614**	1

** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level

7.6 Results of regressions

This section presents the results of the causal relationships between the dependent and independent variables. The effects of independent variables on dependent variables are examined using one independent at a time. Thus the results are presented in six parts: (1) the effects of Chinese auditors' traditional cultural values on their ethical ideologies, (2) the effects of Chinese auditors' *guanxi* orientations on their ethical ideologies, (3) the effects of Chinese auditors' attitudes towards money on their ethical ideologies, (4) the effects of firms' ethical cultures on Chinese auditors' ethical ideologies, (5) the effects of auditors' demographic variables on their ethical ideologies, and (6) the effects of Chinese auditors' ethical ideologies on their ethical judgments and intentions. These results are used to test the hypotheses about the effects of Chinese auditors' values and contextual factors on their ethical ideologies and the effects of Chinese auditors' ethical ideologies on their ethical judgments and intentions.

A linear regression with stepwise method was performed to examine the relationships between the independent and dependent variables. Normality, linearity,

and homoscedasticity are the basic assumptions in applying a regression analysis. Normality assumptions were tested by examining the normal p-p plots of regression standardised residuals. Linearity and homoscedasticity assumptions are tested by examining the scatterplots of the variables.

7.6.1 Results of traditional cultural values and ethical ideologies

The normal p-p plots of regression standardised residuals and scatterplots for Idealism and Relativism are shown in Figures 11 and 12. The results of the normal plots of the regression standardized residuals indicate normal distributions as all cases fall near the straight lines. In addition, the scatterplot of residuals against predicted values show that there are no clear relationships between the residuals and the predicted values. Thus the assumptions of linearity and homoscedasticity are met.

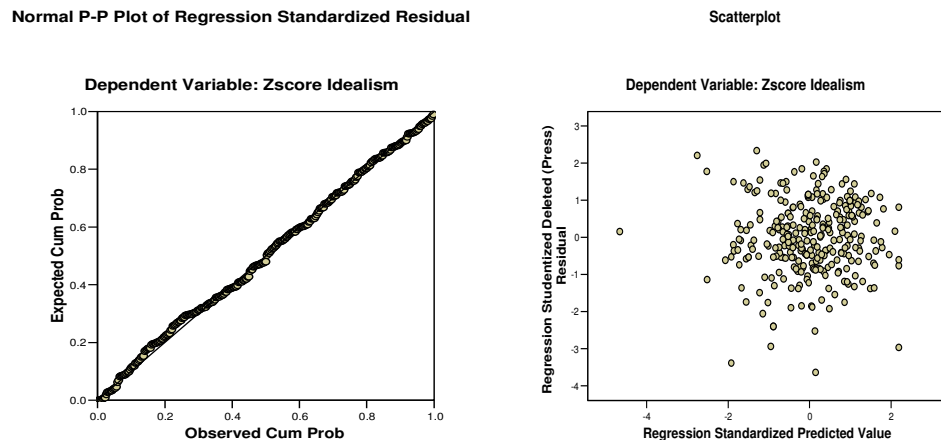


Figure 11: Normal P-P Probability Plot of Regression Standardised Residuals and Scatterplot of Idealism - Cultural Values

Normal P-P Plot of Regression Standardized Residual

Scatterplot

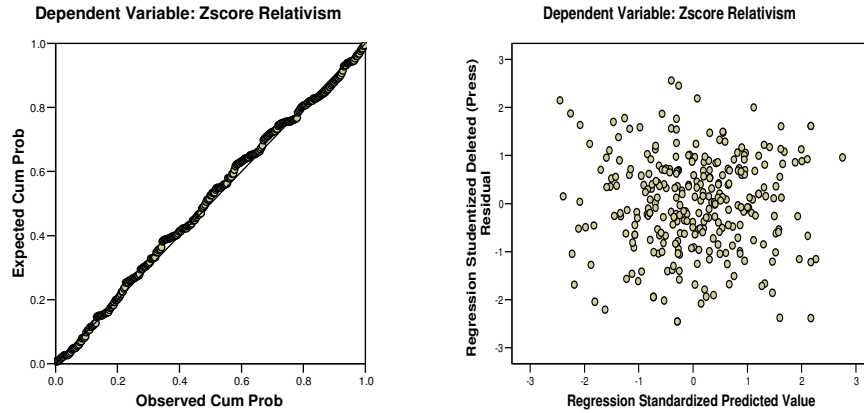


Figure 12: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Relativism - Cultural Values

The regression results for the effects of Chinese auditors' traditional cultural values on their ethical ideologies are shown in Table 41. Results show that CVS_{IIF} (Confucian work dynamism future orientation) is positively associated with Idealism at the 1% significance level but is negatively associated with Relativism at the 5% significance level. Thus H_{2-1} that Chinese auditors' cultural values in Confucian Work dynamism dimension future orientation component are positively associated with Idealism and H_{2-2} that Chinese auditors' cultural values in Confucian Work dynamism dimension past orientation component are negatively associated with Relativism are supported.

Results also show that CVS_{IIP} (Confucian work dynamism past orientation) is negatively associated with both Idealism and Relativism at the 1% significance levels. Thus H_{3-1} that Chinese auditors' cultural values in Confucian Work dynamism dimension past orientation component are negatively associated with Idealism is supported. However, H_{3-2} that Chinese auditors' cultural values in Confucian work

dynamism dimension past orientation are positively associated with relativism is not supported.

Table 41
Results of the Effects of Traditional Cultural Values on Ethical ideologies

	R ²	F	Sig.	Beta	t	Sig.
Idealism:						
Model summary and ANOVA	.252	45.819	.000			
Coefficients:						
CVS _{IIF} (future orientation)				.294	4.506	.000
CVS _{IIP} (past orientation)				-.268	-4.119	.000
Relativism:						
Model summary and ANOVA	.119	18.259	.000			
Coefficients:						
CVS _{IIF} (future orientation)				-.166	-2.363	.019
CVS _{IIP} (past orientation)				-.414	-5.897	.000

Results also show that CVS_I (Integration), CVS_{III} (Human-heartedness), and CVS_{IV} (Moral discipline) are not associated with both Idealism and Relativism. Thus the following hypotheses are not supported:

H_{1.1}: Chinese auditors' traditional cultural values in integration dimension are negatively associated with Idealism.

H_{1.2}: Chinese auditors' cultural values in integration dimension are positively associated with Relativism.

H_{4.1}: Chinese auditors' cultural values in human-heartedness dimension are positively associated with Idealism.

H_{4.2}: Chinese auditors' cultural values in human-heartedness dimension are negatively associated with Relativism.

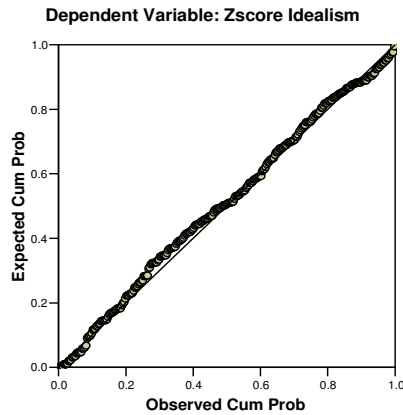
H_{5.1}: Chinese auditors' cultural values in moral discipline dimension are positively associated with Idealism.

H_{5.2}: Chinese auditors' cultural values in moral discipline dimension are negatively associated with Relativism.

7.6.2 Results of *guanxi* orientations and ethical ideologies

The normal p-p plots of regression standardised residuals and scatterplots for Idealism and Relativism are shown in Figures 13 and 14. The results of the normal plots of the regression standardized residuals indicate normal distributions because all cases fall near the straight lines. In addition, the scatterplot of residuals against predicted values show that there are no clear relationships between the residuals and the predicted values. Thus the assumptions of linearity and homoscedasticity are met.

Normal P-P Plot of Regression Standardized Residual



Scatterplot

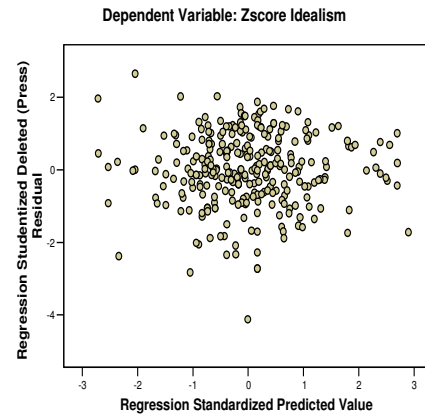
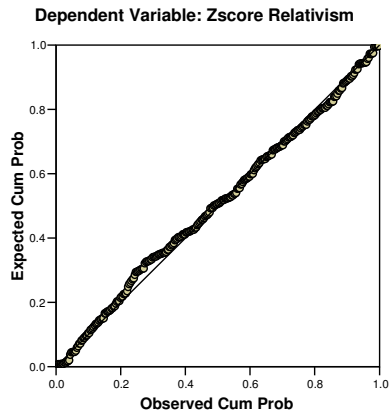


Figure 13: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Idealism - *Guanxi* Orientations

Normal P-P Plot of Regression Standardized Residual



Scatterplot

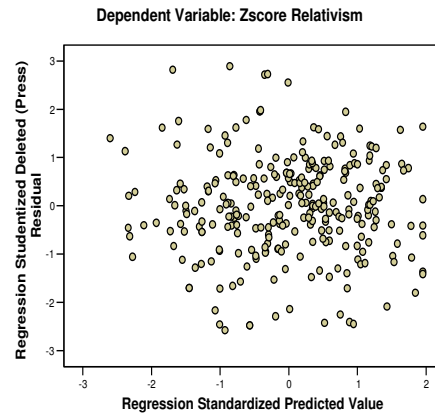


Figure 14: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Relativism - *Guanxi* Orientations

Results of the regression of Chinese auditors' *guanxi* orientations on their ethical ideologies are shown in Table 42.

Table 42
Results of the Effects of *Guanxi* Orientations on Ethical ideologies

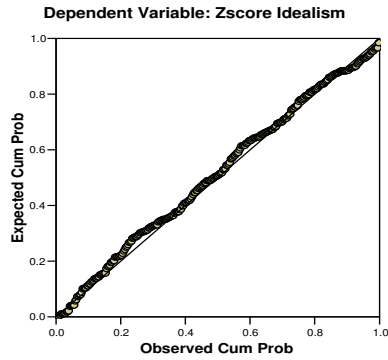
	R^2	F	Sig.	Beta	t	Sig.
Idealism:						
Model summary and ANOVA	.103	16.504	.000			
Coefficients:						
Favour-seeking <i>guanxi</i>				.371	5.558	.000
Rent-seeking <i>guanxi</i>				-.284	-4.225	.000
Relativism:						
Model summary and ANOVA	.176	30.657	.000			
Coefficients:						
Favour-seeking <i>guanxi</i>				.329	5.252	.000
Rent-seeking <i>guanxi</i>				.140	2.235	.026

Results show that Idealism is positively associated with favour-seeking *guanxi* but negatively associated with rent-seeking *guanxi* at the 1% significance level. Thus **H_{7.1}** that Chinese auditors' rent-seeking *guanxi* orientations are negatively associated with Idealism is supported but **H_{6.1}** that Chinese auditors' favour-seeking *guanxi* orientations are negatively associated with Idealism is not supported and in fact the regression results identify a strong positive association. Results also show that Relativism is positively associated with favour-seeking *guanxi* at the 1% significance level and associated with rent-seeking *guanxi* at the 5% significance level. Thus **H_{6.2}** that Chinese auditors' favour-seeking *guanxi* orientations are positively associated with Relativism and **H_{7.2}** that Chinese auditors' rent-seeking *guanxi* orientations are positively associated with Relativism are supported.

7.6.3 Results of attitudes towards money and ethical ideologies

The normal p-p plots of regression standardised residuals and scatterplots for Idealism and Relativism are shown in Figures 15 and 16. The results of the normal plots of the regression standardized residuals indicate normal distributions because all cases fall near the straight lines. In addition, the scatterplot of residuals against predicted values show that there are no clear relationships between the residuals and the predicted values. Thus the assumptions of linearity and homoscedasticity are met.

Normal P-P Plot of Regression Standardized Residual



Scatterplot

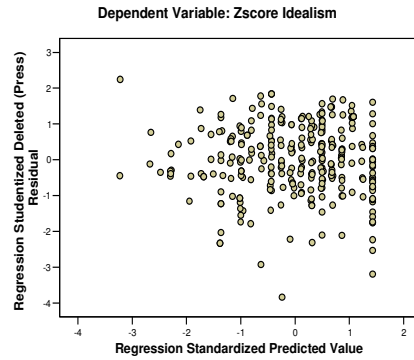
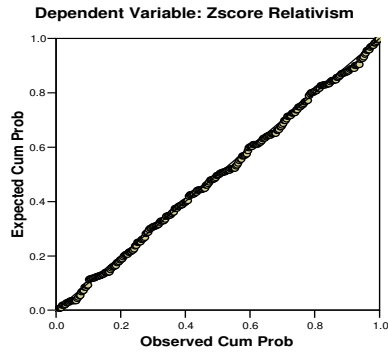


Figure 15: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Idealism - Attitudes towards Money

Normal P-P Plot of Regression Standardized Residual



Scatterplot

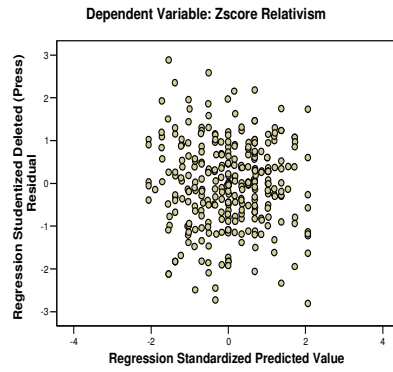


Figure 16: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Relativism - Attitudes towards Money

Results of the regression of Chinese auditors' attitudes towards money on their ethical ideologies are shown in Table 43.

Table 43
Results of the Effects of Attitudes towards Money on Ethical Ideologies

	R ²	F	Sig.	Beta	t	Sig.
Idealism:						
Model summary and ANOVA	.016	4.309	.039			
Coefficients:						
Importance				.125	2.076	.039
Relativism:						
Model summary and ANOVA	.098	29.105	.000			
Coefficients:						
Success				.312	5.395	.000

Results show that Chinese auditors' attitudes towards money in the *importance* dimension is positively associated with Idealism at the 5% significance level. Thus **H_{8.1}** that Chinese auditors' beliefs about the importance of money are negatively associated with Idealism is not supported. In fact, a negative association is predicted. Results also show that Chinese auditors' attitudes towards money in the *success* dimension are positively associated with relativism. Thus **H_{9.2}** that Chinese auditors' beliefs about money represents one's successes are positively associated with Relativism is supported. However, results show that Idealism is not associated with *success*, *motivator*, and *rich* dimensions. Results also show that Relativism is not associated with *importance*, *motivator*, and *rich* dimensions. Thus the following hypotheses are not supported:

H_{8.2}: Chinese auditors' beliefs about the importance of money are positively associated with Relativism.

H_{9.1}: Chinese auditors' beliefs about money represents one's successes are negatively associated with Idealism.

H₁₀₋₁: Chinese auditors' beliefs about they are motivated to work hard for money are negatively associated with Idealism.

H₁₀₋₂: Chinese auditors' beliefs about they are motivated to work hard for money are positively associated with Relativism.

H₁₁₋₁: Chinese auditors' beliefs about to be rich are good are negatively associated with Idealism.

H₁₁₋₂: Chinese auditors' beliefs about to be rich are good are positively associated with Relativism.

7.6.4 Results of firms' ethical cultures and ethical ideologies

The normal p-p plots of regression standardised residuals and scatterplots for Idealism and Relativism are shown in Figures 17 and 18. The results of the normal plots of the regression standardized residuals indicate normal distributions because all cases fall near the straight lines. In addition, the scatterplot of residuals against predicted values show that there are no clear relationships between the residuals and the predicted values. Thus the assumptions of linearity and homoscedasticity are met.

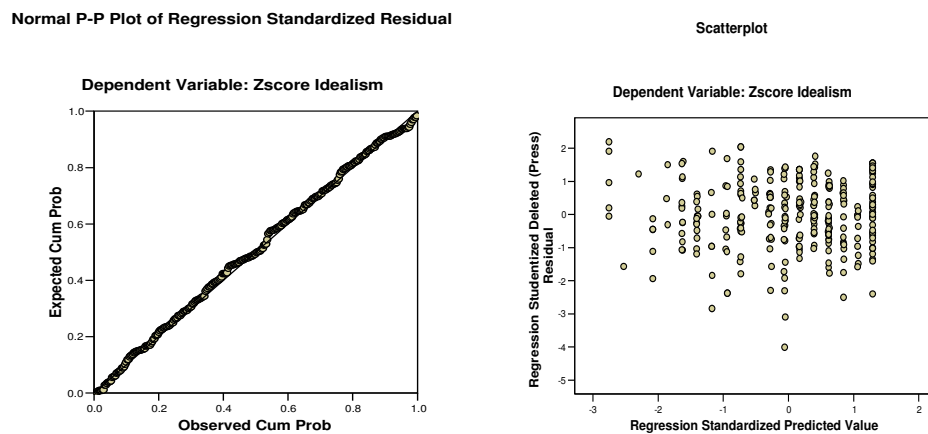
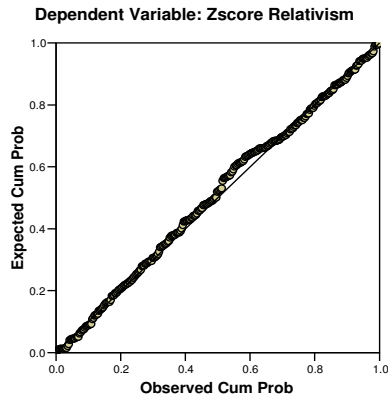


Figure 17: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Idealism - Firms' Ethical Cultures

Normal P-P Plot of Regression Standardized Residual



Scatterplot

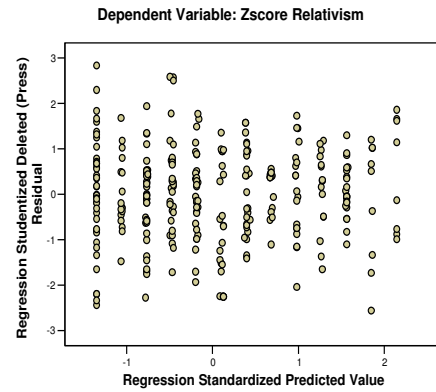


Figure 18: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Relativism - Firms' Ethical Cultures

Results of the effects of Chinese auditors' firms' ethical cultures on their ethical ideologies are shown in Table 44.

Table 44
Results of the Effects of Firms' Ethical Cultures on Ethical ideologies

	R^2	F	Sig.	Beta	t	Sig.
Idealism:						
Model summary and ANOVA	.054	16.724	.000			
Coefficients:						
Punishment systems				.232	4.089	.000
Relativism:						
Model summary and ANOVA	.069	22.100	.000			
Coefficients:						
Managers' unethical behaviours				.264	4.701	.000

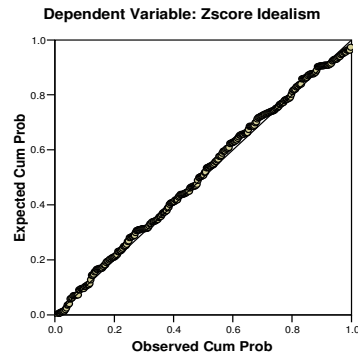
Results show that idealism is positively associated with Chinese auditors' beliefs about their firms' punishment systems at the 1% significance level but not associated with Chinese auditors' beliefs about their managers' unethical behaviours. Thus **H₁₃₋₁**

that auditors employed in work environments where punishment systems exist are likely to disclose attitudes that are positively associated with Idealism is supported but H_{12-1} that auditors employed in work environments where managers display unethical behaviours are likely to disclose attitudes that are negatively associated with Idealism is not supported. Results also show that relativism is positively associated with Chinese auditors' beliefs about their managers' unethical behaviours at the 1% significance level but not associated with Chinese auditors' beliefs about their firms' rewards/punish system. Thus H_{12-2} that auditors employed in work environments where managers display unethical behaviours are likely to disclose attitudes that are positively associated with Relativism is supported but H_{13-2} that auditors employed in work environments where punishment systems exist are likely to disclose attitudes that are negatively associated with Relativism is not supported.

7.6.5 Results of demographics and ethical ideologies

The normal p-p plots of regression standardised residuals and scatterplots for idealism and relativism are shown in Figures 19 and 20. The results of the normal plots of the regression standardized residuals indicate the normal distributions because all cases fall near the straight lines. Thus the normality assumptions are not violated. In addition the scatterplot of residuals against predicted values show that there are no clear relationships between the residuals and the predicted values. Thus the assumptions of linearity and homoscedasticity are met.

Normal P-P Plot of Regression Standardized Residual



Scatterplot

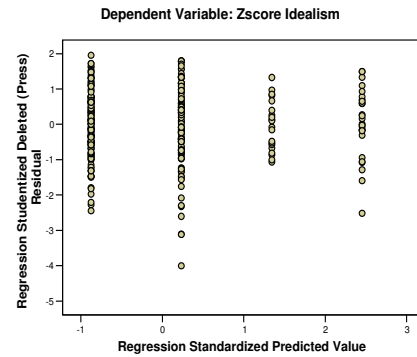
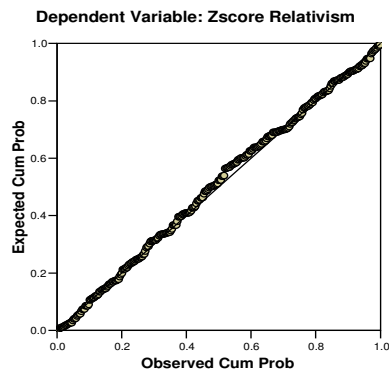


Figure 19: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Idealism – Demographics

Normal P-P Plot of Regression Standardized Residual



Scatterplot

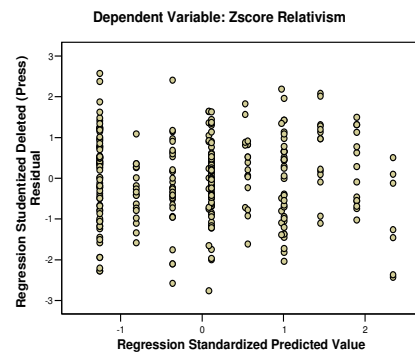


Figure 20: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Relativism - Demographics

Results of the effects of Chinese auditors' demographics on their ethical ideologies are shown in Table 45.

Table 45
Results of the Effects of Demographics on Ethical ideologies

	R ²	F	Sig.	Beta	t	Sig.
Idealism:						
Model summary and ANOVA	.019	5.521	.016			
Coefficients:						
Age				.139	2.433	.016
Relativism:						
Model summary and ANOVA	.030	4.673	.010			
Coefficients:						
Gender				-.120	-2.087	.038
Position				.116	2.033	.043

Results show that the following demographic variables are significantly associated with ethical ideologies: First, *gender* is negatively associated with relativism at the 5% significance level. This result suggests that male auditors are more relativistic than female auditors. However, this study did not find *gender* is associated with idealism. Thus **H_{14.2}** that male auditors are relativistic than female auditors is supported but **H_{14.1}** that female auditors are more idealistic than males is not supported.

Second, results show that *age* is positively associated with idealism at the 5% significance level but is not associated with relativism. These results suggest that older auditors are more idealistic than young auditors. Results also show that *age* did make any contribution for the prediction of relativism. Thus **H_{15.2}** that Chinese auditors' age is negatively associated with relativism and **H_{15.1}** that Chinese auditors' age is negatively associated with idealism are not supported.

Third, results show that *position* is positively associated with relativism at the 5% significance level but is not associated with idealism. Thus H₁₇₋₂ that Chinese auditors' positions are negatively associated with relativism is supported but in the wrong direction and H₁₇₋₁ that Chinese auditors' positions are negatively associated with idealism is not supported.

Results also show that both experience and education are not associated with ethical ideologies. Thus the following hypotheses are not supported:

H₁₆₋₁: Chinese auditors' experiences are negatively associated with idealism.

H₁₆₋₂: Chinese auditors' experiences are negatively associated with relativism.

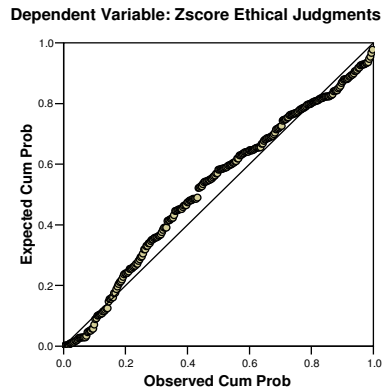
H₁₈₋₁: the levels of Chinese auditors' education are negatively associated with idealism.

H₁₈₋₂: the levels of Chinese auditors' education are negatively associated with relativism, are not supported.

7.6.6 Results of ethical ideologies and ethical judgments and intentions

The normal p-p plots of regression standardised residuals and scatterplots for ethical judgments and ethical intentions are shown in Figures 21 and 22. The results of the normal plots of the regression standardized residuals for ethical judgments indicate that there are some deviations but they are not significant. In addition, the scatterplot of residuals against predicted values show that there are no clear relationships between the residuals and the predicted values. Thus the assumption of linearity and homoscedasticity are met.

Normal P-P Plot of Regression Standardized Residual



Scatterplot

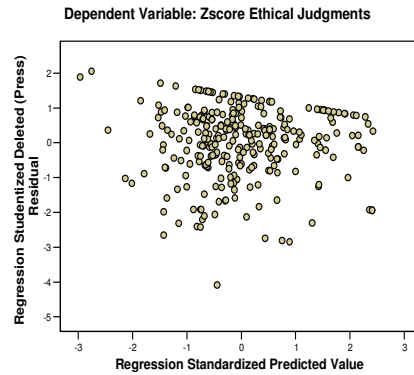
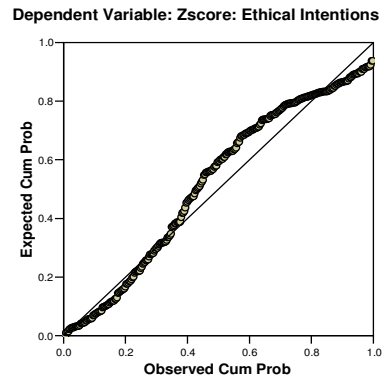


Figure 21: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Ethical Judgments - Ethical ideologies

Normal P-P Plot of Regression Standardized Residual



Scatterplot

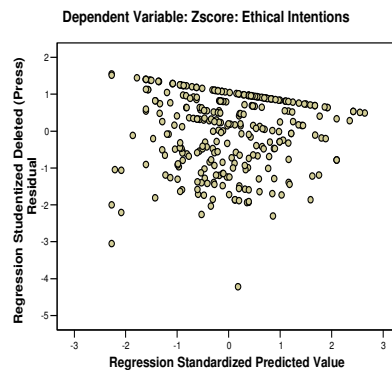


Figure 22: Normal P-P Plot of Regression Standardised Residuals and Scatterplot of Ethical Intentions - Ethical ideologies

Descriptive results show that the overall mean scores and standard deviations for ethical judgments were 5.862 (.834) and for ethical intentions were 5.723 (1.209). The results of the one sample t-test show that both Chinese auditors' ethical judgments and intentions are significantly higher than the mid-point value 5 at the

1% significance levels. Results of the two regressions of Chinese auditors' ethical ideologies on their ethical judgments and intentions are shown in Table 46.

Table 46
Results of the Effects of Ethical ideologies on Ethical Judgments and Intentions

	R ²	F	Sig.	Beta	t	Sig.
Ethical judgments:						
Model summary and ANOVA	.060	8.879	.000			
Coefficients:						
Idealism				.185	3.129	.002
Relativism				-.197	-3.326	.001
Ethical intentions:						
Model summary and ANOVA	.044	12.922	.000			
Coefficients:						
Relativism				-.210	-3.595	.000

Results show that Idealism is positively associated with ethical judgments at the 1% significance level but Relativism is negatively associated with ethical judgments at the 1% significance level. Thus **H_{19.1}** that Chinese auditors' ethical judgments are positively associated with Idealism and **H_{19.2}** that Chinese auditors' ethical judgments are negatively associated with Relativism are supported. Results also show that Relativism is associated negatively with ethical intentions at the 1% significance level. **H_{20.1}** that Chinese auditors' ethical intentions are positively associated with idealism is not supported but **H_{20.2}** that Chinese auditors' ethical intentions are negatively associated with Relativism is supported.

7.6.7 Results of ethical judgments and intentions across demographics

An independent sample t-test was used to compare male and female Chinese auditors' ethical judgments and intentions. Results show that there is no significant difference between male and female auditors' ethical judgments and intentions.

A one-way ANOVA was used to compare Chinese auditors' ethical ideologies across age, education, position, and experience. Results show that there is no significant difference between Chinese auditors' ethical judgments and intentions across auditors' levels of education and position. However, results show that Chinese auditors' ethical judgments are different between the age groups 20-30 and 31-40 at the 5% significance level. Results suggest that young auditors are less ethical in terms of their judgments than older auditors. Results also show that Chinese auditors' ethical intentions are different between experiences from 0-5 years to 11-15 years at the 5% significance level. Results suggest that less experienced auditors are less intentioned compared to experienced auditors.

A Stepwise linear regression was performed to examine whether there was any casual connection between auditors' ethical judgments and intentions and demographic variables for Chinese auditors. No significant causal associations were noted for the sample used in this study.

Conclusion

The results of this study were presented in this Chapter. The following significant results were found:

1. Chinese auditors have stronger views about their traditional cultural values in four dimensions except for Confucian Work dynamism past orientation.

Young auditors have a lower mean score than older auditors in the Integration dimension. Younger and less experience auditors have lower mean scores than older and experienced auditors in CVS_{III} (Human-heartedness) dimension. Auditors who hold a Masters degree have a lower mean score than those who hold a Bachelors degree in the Confucian Work dynamism future orientations construct. Chinese auditors' cultural values in Confucian Work dynamism dimension future orientation component are found to be positively associated with Idealism but their cultural values in Confucian Work dynamism dimension past orientation component are negatively associated with Idealism. Their cultural values in Confucian Work dynamism dimension past orientation component are found to be negatively associated with Relativism.

2. Chinese auditors have significant higher mean scores in both favour-seeking and rent-seeking *guanxi* orientations to compare the mid-point value. However, they had lower *guanxi* orientations than did the Hong Kong and Singapore Chinese subjects. Young and less experienced auditors are more likely to use rent-seeking *guanxi* than older and experienced auditors. Chinese auditors' rent-seeking *guanxi* orientations are found to be negatively associated with Idealism and their favour-seeking and rent-seeking *guanxi* orientations are found to be positively associated with Relativism.
3. Chinese auditors' attitudes towards are significant higher in the *importance* and *rich* dimensions to compare the mid-point value. Their attitudes towards money were significantly higher than Hong Kong employees. Male auditors had a significant higher mean score in the *rich* dimension than female auditors. Young auditors have significantly higher mean scores in the success

and motivator dimensions than older auditors. Chinese auditors' beliefs about money represents one's successes are found to be positively associated with Relativism. Chinese auditors' beliefs about the importance of money are negatively associated with Idealism is not supported but a negative association is predicted.

4. Chinese auditors have stronger beliefs about their firms' ethical cultures but their beliefs are significantly lower than for American subjects. Junior and senior auditors are less likely to perceive their managers had unethical behaviours than partners. Auditors employed in work environments where punishment systems exist are likely to disclose attitudes that are found to be positively associated with Idealism. Auditors employed in work environments where managers display unethical behaviours are found to be likely to disclose attitudes that are positively associated with Relativism.
5. Chinese auditors have relatively higher ethical positions (on both Idealism and Relativism) than American subjects. Males hold stronger relativist positions than females. Older auditors are more idealistic than younger auditors. Auditors who hold higher positions are more likely to be relativists than auditors who hold lower positions. Chinese auditors' ethical judgments are found to be positively associated with Idealism and negatively associated with Relativism. However, their ethical intentions are only found to be negatively associated with Relativism. Young auditors are less ethical in terms of their judgments than older auditors. Less experienced auditors are less intentioned compared to experienced auditors.

The above results will be discussed in the following Chapter.

Chapter 8

Discussion of the Results

This Chapter discusses the results of this study. As stated in Section 1.3, this study has four objectives: (1) to examine Chinese auditors' values, (2) to examine the effects of Chinese auditors' values on their ethical ideologies, (3) to examine Chinese auditors' personal and other contextual factors on their ethical ideologies, and (4) to examine the effects of Chinese auditors' ethical ideologies on their ethical judgments and intentions. This study posits that Chinese auditors' cultural values which include their national cultural values, *guanxi* orientation, and attitudes towards money, auditing firms' ethical culture, and their personal factors impact on their ethical ideologies and the latter have impacts on ethical judgments and intentions (see more details in Section 5.1). The relationships between these independent and dependent variables are given in Figure 23.

The discussions of the results are presented in five parts. Part 1 discusses the results of Chinese auditors' values. It includes a discussion of Chinese auditors' traditional cultural, *guanxi* orientations, and their attitudes towards money. Part 2 discusses the results of Chinese auditors' ethical ideologies. Part 3 discusses the results of auditing firms' ethical cultures. Part 4 discusses the results of the effects of Chinese auditors' values on their ethical ideologies. Part 5 discusses the results of the effects of Chinese auditors' ethical ideologies on judgments and intentions.

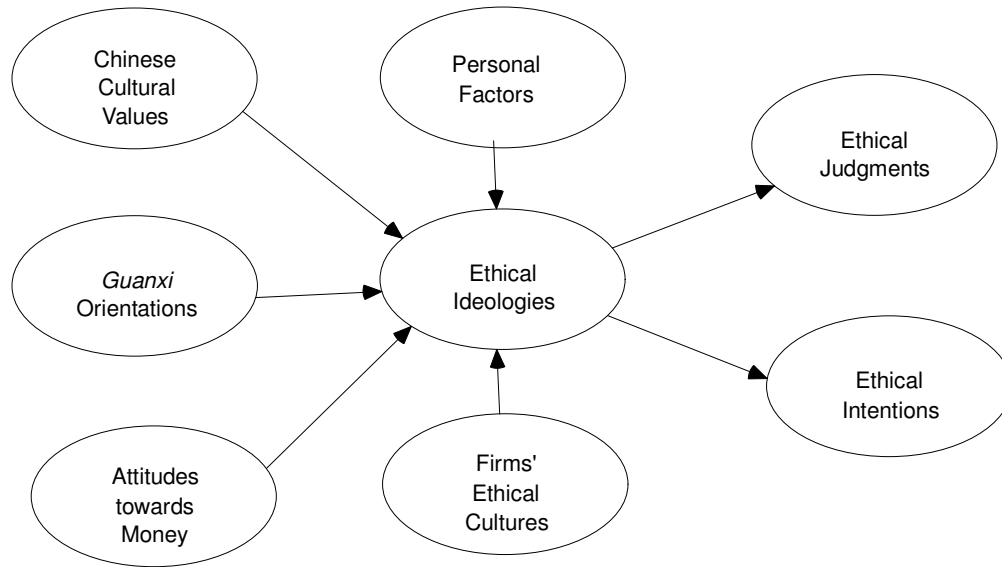


Figure 23: Chinese Auditors' Ethical Decision-making Model

8.1 Chinese auditors' cultural values

The first objective of this study was to examine Chinese auditors' values. This study identifies Chinese auditors' values as traditional cultural values, interpersonal relationships, and attitudes towards money. This section discusses these three aspects in detail.

8.1.1 Chinese auditors' traditional cultural values

This study found that the mean scores for Chinese auditors' traditional cultural values in CVS_I (Integration), CVS_{IIIF} (Confucian Work dynamism future orientation), CVS_{III} (Human-heartedness) and CVS_{IV} (Moral discipline) dimensions that were found to be significantly greater than the scale mid-point value. CVS_{IIIF} (Confucian Work dynamism future orientation) has the highest mean score, followed by CVS_{III} (Human-heartedness), CVS_I (Integration) and CVS_{IV} (Moral discipline). This study

also found that the mean score of Chinese auditors' traditional cultural values in the CVS_{IIF} (Confucian Work dynamism past orientation) was significantly lower than the scale mid-point value. The result of lower mean score for CVS_I (Integration) is consistent with the findings reported in the Chinese Culture Connection's (1987) study and Hofstede's cultural theory which describes Chinese society as collectivist.

The result of higher mean score about CVS_{IIF} (Confucian Work dynamism future orientation) is consistent with the findings reported in the prior studies like the Chinese Culture Connection (1987), Ralston et al. (1992), and Tang (2000). CVS_{II} (Confucian Work dynamism) is a unique dimension that reflects particular Chinese traditional values (The Chinese Culture Connection 1987). The future orientation component reflects Confucius' work ethics by focusing on social hierarchy, and personal virtue. Confucius' ordering relationships and five constant virtues have influenced Chinese people's behaviours over three thousands years. Thus the Chinese auditors' higher mean score in this component is as expected.

The lower mean score about CVS_{IIF} (Confucian Work dynamism past orientation) could be due to the historical fact that the Chinese Communist Party politics downplayed the importance of Confucian philosophy and teachings in everyday life, The socialist teachings of Maoism and Marxism were used to control people's thoughts and actions. Thus the values like respect for tradition, protecting your face, and personal steadiness may not be considered as important by modern Chinese auditors.

The lower mean score for CVS_{IV} (Moral discipline) is consistent with prior studies. For example, Tang (2002) found that Chinese managers from the PROC had a significantly lower mean score on CVS_{IV} (Moral discipline) dimension than American and Singapore managers. The average mean score of CVS_{III} (Human-heartedness) is also consistent with prior studies (The Chinese Culture Connection 1987; Ralston et al. 1992; Tang 2000).

This study also found that certain demographic factors also affected scores for Chinese auditors' traditional cultural values. First, young and less experienced auditors have lower mean scores than older and experienced auditors in CVS_I (Integration) and CVS_{III} (Human-heartedness) dimensions. These results suggest that older and experienced auditors are more collectivist in their views and are more kind and courteous to others than young and less experienced auditors. Older auditors are more likely to respect tradition while younger auditors are more likely to enjoy the freedoms and western ideas that have infiltrated China in recent years.

Second, auditors who hold a Masters degree have a lower mean score than those who hold a Bachelor degree. Results show that there are only 3.4% of respondents who hold a Master degree in this study. Thus they might not be representative of auditors who hold a Master degree in a real auditing workplace. In addition correlations suggest that *education* is negatively correlated to *age*. This result suggests that auditors who hold a Bachelor degree are more likely to be older auditors. It also suggests that younger graduates in China complete Masters Degrees as part of their full time programs. Thus it could argued that these younger auditors are more likely to be exposed to western philosophies and hence down play the importance of these

traditional issues. Moreover, there is no comparative information to be found in prior studies, thus this study did not make any conclusion about whether Chinese auditors' traditional cultural values are different due to their levels of education.

8.1.2 Chinese auditors' *guanxi* orientations

As discussed in Sections 2.4.2, 5.3.1.2, and 6.2.2, Chinese auditors' levels of *guanxi* orientations are measured in two dimensions (favour-seeking and rent-seeking) using Ang and Leong's (2000) 9-item scale and three items which were constructed by the author. This study found that the mean scores of Chinese auditors' favour-seeking and rent-seeking *guanxi* orientations are significantly higher than the scale mid-point. These results suggest that Chinese auditors believe that *guanxi* orientations are important for maintaining business relationships. Results also show that Chinese auditors' rent-seeking *guanxi* orientations are significantly lower than their favour-seeking *guanxi* orientations. This result suggests that Chinese auditors may be aware the problems associated with rent-seeking *guanxi* although favour seeking *guanxi* continues to find favour.

This study found that Chinese auditors' favour-seeking *guanxi* orientations are significantly lower than business students from Hong Kong and Singapore in Ang and Leong's (2000) study and subjects from Singapore, Canada, and Hawaii reported by Ang (2000). Ang's (2000) study found that Hong Kong and Singapore students' *guanxi* orientations are lower than students from Canada and Hawaii. Ang (2000) explained that students from Hong Kong and Singapore... 'are more familiar with the concept of *guanxi* and know its benefits and limitations' (p. 53). Thus their beliefs about *guanxi* orientations are more realistic than Canadian students (Ang 2000).

Taking Ang (2000) explanation, the possible reason why Chinese auditors' favour-seeking *guanxi* orientations are significantly lower than business students from Hong Kong and Singapore is due to the fact that Chinese auditors know their roles and responsibilities, meaning that they understand the benefits and costs of *guanxi* orientations better than students.

Moreover, this study found that there is no significant difference in Chinese auditors' favour-seeking *guanxi* orientations across demographic variables. However, young and less experience auditors were found to be more likely to use rent-seeking *guanxi* than older and experienced auditors. These results might be due to young auditors being more ambitious and have greater pressure to prove and exploit their economic status in modern China.

Rent-seeking *guanxi* study has not been considered in prior studies. Thus there is no comparative result provided in this study. However, as mentioned in Sections 2.4.2 and 6.2.2, this study has developed a rent seeking-*guanxi* scale to reflect modern business in China. The scale includes back-door deals, power exchange, and bureaucratic privilege. Results suggest that Chinese auditors exhibit high rent-seeking *guanxi* orientations. However, their rent-seeking *guanxi* orientations are significantly lower than their favour-seeking *guanxi* orientations. A possible explanation of the high score of Chinese auditors' rent-seeking *guanxi* orientations is that power exchanges and back door deals are prevalent in today's Chinese business environment. In addition, Chinese people are regarded as situation-oriented and pragmatic (Yau 1996; Redfern 2005; Douglas & Wier 2005) meaning that they reject moral rules and ask if the action yielded the best possible outcome in the given

situation (Forsyth 1980). Thus Chinese auditors consider that these kinds of business transactions are unavoidable and acceptable. The result that Chinese auditors' rent-seeking *guanxi* orientations are significantly lower than their favour-seeking *guanxi* orientations suggests that Chinese auditors are still aware the problems associated with rent-seeking *guanxi*.

8.1.3 Chinese auditors' attitudes towards money

This study found that the mean scores of Chinese auditors' attitudes towards money in the *importance* and *rich* dimensions are significantly higher than the scale mid-point value. However, the mean scores for attitudes towards money in the *success* and *motivator* dimensions are not significantly different to the mid-point values. These results suggest that Chinese auditors believe money is important for them and that they desire to be rich. Male auditors outscored females in their desire to be rich. Results also suggest that Chinese auditors (particularly older auditors) identify with the notions that money equates less with success or as a motivator to work hard. Older (and more senior) auditors are likely to be settled and are less affected by money pressures, compared to younger auditors, who are more ambitious and are subjected to greater financial pressures as they strive to meet new consumption demands (e.g., housing, motor vehicles and travel). The findings of this study are consistent with Maslow's (1970) Needs Theory, which holds that satisfied needs are not motivators, unsatisfied needs are.

This study also found that Chinese auditors' attitudes towards money are significantly higher Hong Kong employees reported by Tang and Chiu (2003). They explained that Hong Kong employees had a higher level of income so unsatisfied

needs were no longer an issue. The study by Brandstatter and Brandstatter (1996) showed that higher income is related to the lower marginal utility of money. Ang (2000) also found that Hong Kong business students have lower beliefs about money representing success and happiness compared to students from Canada and Hawaii. Thus Chinese auditors' attitudes towards money are higher than Hong Kong employees can be explained in two ways. First, Chinese auditors have a lower level of income than Hong Kong employees and second, profit seeking is a primary goal for today's younger generations of Chinese business people.

8.2 Chinese auditors' ethical ideologies

Chinese auditors' ethical ideologies were examined in two underlying dimensions, Idealism and Relativism. This section discusses the results of Chinese auditors' ethical ideologies.

This study found that Chinese auditors' ethical ideologies are significantly higher than the scale mid-point value in both underlying dimensions. In addition, the mean scores for Idealism were much higher than for Relativism. According to Forsyth taxonomy of ethical ideologies a significant number of Chinese auditors could be classified as Situationist (i.e., high Idealism and high Relativism). (Forsyth, 1980) These results suggest that Chinese auditors tend to reject universal moral rules but advocate individualistic analyses of each act (in each situation) as suggested by Forsyth's (1980) ethical ideology theory. These findings are consistent with other evidence that Chinese people's ethical positions are likely to be situationist (Redfern & Crawford 2004; Redfern 2005) and that their ethical decision-making is situational (Ralston et al. 1995; Jackson et al. 2000). These results are also consistent with

Hofstede's (1980; 1991) culture model. Chinese culture is classified as large power distance, collectivism and femininism, with stronger uncertainty avoidance tendencies and a long-term orientation in Hofstede's (1980; 1991)) studies. His studies suggest that people high in uncertainty avoidance are concerned about security in life and are uncomfortable in unstructured situations. Thus, they adhere to strict laws and rules to minimize risk situations. This suggests that people strong in uncertainty avoidance are more likely to have stronger idealist beliefs. Hofstede's culture theory also states that people from a collective culture make ethical judgments based on the teleological principles, suggesting, that is what is good for the greatest number is good for all.

Chinese auditors' ethical ideologies are found to be different due to demographic factors. For example, male auditors were found to hold stronger relativist ethical positions than females and auditing firms' managers and partners (with auditing backgrounds) were more relativistic than practicing auditors. The result of males holding stronger relativist positions than females is inconsistent with the findings reported by Douglas and Schwartz (1999). They found that there is no significant difference between male and female students' relativist positions but that male students had lower Idealism scores than did female students. These inconsistent results could be due to differences in age and position. Subjects in Douglas and Schwartz's (1999) study were accounting students. Auditors and students occupy different roles in society and bear different responsibilities in their lives. The average age for subjects is 21 years in Douglas and Schwartz's (1999) study and 33 in the current study. Prior studies suggest that age influences an individual's ethical position (see Forsyth 1980; Douglas & Wier 2005). The result that auditing firms' managers

and partners are more relativistic than auditors is consistent with Forsyth's theory that older people are more relativistic than young people. Age and employment position is positively correlated in this study.

This study also found that Chinese auditors hold stronger idealist beliefs than American auditors and American subjects from marketing and management sectors. These results can be explained by cultural value differences as suggested by Hofstede's culture theory and prior studies. People in Chinese society are stronger in uncertainty avoidance than American people. Thus Chinese people are more likely to adhere to strict laws and rules to minimize unstructured situations. The results of the current study are also consistent with the findings reported by Singhapkdi et al. (1994), Attia et al. (1999), and Lee and Sirgy (1999), which found that Asian subjects had stronger idealist beliefs than American marketers and managers.

Chinese auditors are also found to hold stronger idealist beliefs than Chinese managers in Redford's (2005) study. These results suggest that an industry or occupation difference could be one factor which influences individuals' ethical positions. The Auditing industry is different from other industries like management because the role that auditors play is to protect shareholders and the public interest. They are required to observe auditing Standards and the Code of Professional Conduct regardless of the circumstances. It is therefore expected that auditors will hold stronger idealist beliefs than managers. However, due to lack of data, the author is unable to draw any conclusions about the effects of industry or occupation on ethical ideologies between Chinese auditors and managers.

Furthermore, this study found that Chinese auditors' scored higher in Relativism than American subjects from the auditing, marketing, and management industries. These results are consistent with the findings reported by Singhapakdi et al. (1994), Redfern and Crawford, 2004, and Redfern (2005) and are also consistent with the evidence that Asian people's decision-making is situation based, suggesting that Asian people hold strong relativist beliefs (Ralston et al. 1995; Jackson et al. 2000). Hofstede's (1980) study shows that people in a collective culture focus less on themselves and regard the group interests as more important than their own. His theory suggests that people from a collective culture will make an ethical judgment based on teleological principles, that is, that what is good for the greatest number is good for all. Results of this study also show that there are no differences between Chinese auditors' relativist positions and those Chinese managers in Redfern's (2005) study.

8.3 Firms' ethical cultures

Results of this study show that Chinese auditors' beliefs about their firms' ethical cultures are significantly higher than the scale mid-point value. These suggest that Chinese auditors strongly believe that their managers demonstrated unethical behaviour and that this behaviour is punishable by their firms. However, compared to American subjects, Chinese auditors had a lower overall mean score for the five items making up the test instrument (refer Appendix D). The reasons for this can be explained in two ways. First, an internal consistency test for the China data revealed that the Cronbach Alpha for five items was .67. This result suggests that some respondents provided inconsistent answers, which reduced the reliability. Second, auditors might not be willing to give their real views about their firms' ethical cultures because the questions are directly concerned with their managers'

behaviours. The second reason may be supported by the findings that practising auditors are found to be less likely to perceive their managers had unethical behaviours than partners.

8.4 The effects of auditors' values on their ethical ideologies

The second objective of this study was to examine the effects of Chinese auditors' values on their ethical ideologies. This study also examined the effects of Chinese auditors' personal factors and their firms' ethical cultures on their ethical ideologies (refer Sections 7.6.1, 7.6.2, 7.6.3, 7.6.4, and 7.6.5 respectively). This section provides the discussion relating to the findings.

8.4.1 Traditional cultural values and ethical ideologies

Results of bivariate correlations suggest that Idealism is related to Chinese traditional cultural values for all five dimensions and Relativism to four dimensions (refer Section 7.5.1). However, only Confucian Work dynamism future and past orientation components are associated with Idealism and Relativism in the regression models (refer Section 7.6.1). These results suggest that Chinese auditors' traditional cultural values are strongly intercorrelated and the Stepwise regression excluded less relevant item when completing the process. For example, the values of correlation coefficient between integration and Confucian work dynamism past component are .609 and between human-heartedness and Confucian work dynamism future component are .643. These results suggest that the relationships between these variables appear not to be substantially independent of each other. Thus the contributions of integration, human-heartedness, and moral discipline in explaining Idealism and Relativism could be reduced once the influences of Confucian work dynamism past

and future components are accounted for.

8.4.2 *Guanxi* orientations and ethical ideologies

This study found that favour-seeking *guanxi* is positively correlated to Idealism and Relativism and was identified as a significant predictor in the regression model (refer Sections 7.5.2 and 7.6.2). The positive impact of favour-seeking *guanxi* has important implications for auditors aligned with either or both ideologies. They would believe favour-seeking *guanxi* can benefit their business not necessarily harm others. These results are consistent with the purpose of favour-seeking *guanxi* to facilitate the exchange of information and thereby foster good, long-term business relationships (Luo 1997; Lovett et al. 1999; Su et al. 2003). The results are also consistent with findings reported in other studies, for example that *guanxi* improves business (Davies et al. 1995), impacts firm efficiency and growth (Lu & Chen 1997; Lu 1997), and provides certain transaction cost advantages (Standifird & Marshall 2000).

Rent-seeking *guanxi* was found to have a positive impact on Relativism and a negative impact on Idealism in the regression models. These findings suggests that high rent-seeking *guanxi* orientated auditors are more likely to be apply relativist attributes. Fan (2000) and Dunfee and Warren (2001) argue that from a universal moral perspective, *guanxi* is against the principle of fairness and also violates the fiduciary duties rule. Its consequences are...“personal gains at social cost” (Fan 2000 p. 371) and also reduce social wealth and benefit a few at the expense of the many (Dunfee & Warren 2001). Ang and Leong (2000) found that *guanxi* is negatively correlated with beliefs about corporate ethics and social responsibility. Au and Wong

(2000) also found that *guanxi* has a negative impact on Hong Kong auditors' ethical judgments in auditor-client conflict situations. The results of this study are consistent with these prior studies. In addition, this study found that auditors who adopt idealist positions are less likely to use rent-seeking *guanxi*.

8.4.3 Attitudes towards money and ethical ideologies

This study found that Idealism is not correlated to any components of the love of money but that Relativism correlated with all components (refer Section 7.5.3). This study also found that Chinese auditors' attitudes towards money in the *importance* dimension positively impacts Idealism. Attitudes towards money in the *success* dimension positively impact Relativism in the regression models (refer Section 7.6.3). The last mentioned outcome is consistent with the Vitell, Singhapakdi and Thomsa's (2001) argument that the love of money is related to materialism which is... 'an orientation toward possessions and money in the attempt to achieve personal happiness' (p. 5).

The result that Chinese auditors' attitudes towards money in the *importance* dimension have a positive impact on Idealism suggests that Chinese auditors who believe money is important are more likely to be idealists. The importance of money itself is not against the principle of Idealism, which includes concern about harming others. Confucius taught that a person of noble character, although he/she loved money, would acquire it in a moral way. Thus, that Idealism is positively associated with the importance of money dimension is reasonable.

The result that Chinese auditors' attitudes towards money in the *success* dimension have a positive impact on Relativism suggests that Chinese auditors who believe money represent one's path to success is more likely to be relativists. This result is consistent with prior studies. For example, Luna-Arocas and Tang (2004 p. 331) argue that... 'the love of money is the measure of one's values, wants, and desires'. Chinese people work hard for money and profit seeking (Whitcomb et al. 1998; Yang 2003) and believe money can make the world go round (Ang 2000).

The results that Chinese auditors' attitudes towards money in the *motivator* and *rich* dimensions did not make any contribution to the regression models can be explained by the high intercorrelations. For example, *success* is highly correlated to *motivator* (.692) and *importance* is highly correlated to *rich* (.624), resulting in some dimensions being excluded from the final model.

8.4.4 Firms' ethical cultures and ethical ideologies

This study found that Chinese auditors' beliefs about their firms' punishment systems are positively associated with Idealism but not associated with Relativism. Thus the results suggest that auditors who work in a firm that they perceive applies ethical standards are more likely to be Idealists. These results are consistent with the prior studies. For example, Schwartz (2001) suggests that a person with a higher level of perceived corporate ethical values is more likely to take an idealist position. Studies by Douglas et al. (2001) and Vitell and Hidalgo (2006) confirm this position. Douglas et al. (2001) found that perceived organisational cultural values significantly affect Idealism but not Relativism. Vitell and Hidalgo (2006) also found that Idealism is positively associated with individuals' attitudes towards the role of ethics and

social responsibility but not Relativism.

This study also found that Chinese auditors' beliefs about their managers' unethical behaviours are positively associated with Relativism but not associated with Idealism. These results suggest that auditors who work in an environment in which their managers often engage in unethical activities are more likely to adopt relativist positions. These results are also consistent with the findings reported in above prior studies.

8.4.5 Demographics and ethical ideologies

This study found that male auditors are more relativistic than female auditors, older auditors are more idealistic than younger auditors, and auditors who hold higher positions are more likely to be relativists than auditors who hold lower positions. Forsyth (1980) found that an individual's ethical ideologies are influenced by age. His study suggests that older subjects are less idealistic and relativistic than younger subjects. Thus the result that old auditors are more idealistic than young auditors in the current study is inconsistent with the findings reported by Forsyth's (1980). Douglas and Schwarz (1999) found that there is no correlation between Idealism and age. Douglas and Wier's research (2005) also found that American managers' idealist positions are significantly lower than Chinese managers although American managers are significantly older than their Chinese counterparts. Chinese auditors in the current study are older than the subjects (accounting students) in Douglas and Schwarz's (1999) study but the mean scores for both the Idealism and Relativism of Chinese auditors are higher than for accounting students. All these studies suggest that older subjects are not necessarily less idealistic or relativistic than younger

subjects as suggested by Forsyth (1980). Thus whether age is positively or negatively associated with Idealism needs more evidence in order to draw a conclusion.

Douglas and Schwartz (1999) found that that males demonstrated relatively lower Idealism scores than did females. However, with respect to Relativism, they did not find any difference between male and female scores. The result that male auditors are more relativistic than female auditors in the current study is inconsistent with the findings in Douglas and Schwartz's (1999) study.

8.5 Effects of ethical ideologies on ethical judgments and intentions

The third objective of this chapter is to examine the effects of Chinese auditors' ethical ideologies on their ethical judgments and intentions as reported in Section 7.6.6. This section discusses the correlations and causal relationships between Chinese auditors' ethical ideologies and their ethical judgments and intentions. It also includes the discussion about the effects of Chinese auditors' demographic factors on their ethical judgments and intentions.

8.5.1 Ethical ideologies on ethical judgments

This study found that ethical judgments are positively associated with Idealism and negatively associated with Relativism (refer Section 7.6.6). The results suggest that idealistic auditors are more likely make ethical judgments compared to relativistic auditors. This result is consistent with the findings reported in prior studies (see Barnett et al. 1994; 1996; 1998; Douglas and Schwartz, 1999; Singhapakdi et al., 2000; Davis et al. 2001; Douglas et al. 2001). All these studies found that Idealism positively influences individuals' ethical judgments.

The result that Chinese auditors' relativistic ideologies are negatively associated with their ethical judgments means that auditors with lower relativist positions are more likely to make ethical judgments than auditors who with higher relativist positions. This result is also consistent the findings reported in Douglas and Schwartz (1999) and Singhapakdi et al. (2000). However, it is inconsistent with the findings in Barnett et al. (1996), Davis et al. (2001), Douglas and Schwartz (2001), and Chui and Stenbridge (2001). These studies found that Relativism has no effect on ethical judgments.

This study also found that there was no significant difference in Chinese auditors' ethical judgments between males and females and among the levels of their education, position, and work experience. However, their ethical judgments are significantly different between the two age-groups 20-30 and 31-40 (refer Section 7.6.7). Results suggest that young auditors are less ethical in terms of their judgments than older auditors. Prior research provides mixed evidence about the effects of respondents' demographic information on their abilities to identify ethical issues and make ethical judgments. Firstly, some studies suggest that formal education is a significant predictor of an individual's level of moral reasoning (Rest 1979; 1986; Colbey et al. 1983). Others suggest there is no correlation between these variables (Shaub 1994; Karcher 1996; Cohen, Pant, & Sharp 2001). Second, Shaub (1994) and Ponemon and Glazer (1990) found that auditors' experience is not significantly associated with their levels of moral reasoning. Karcher (1996), on the other hand, found that older auditors are more sensitive to ethical issues. Shaub and Lawrence (1996) also found that more experienced auditors exhibit higher levels of

professional scepticism. Third, Karcher (1996) found that auditors' ability to detect the presence of ethical problems does not differ among the positions held by employees in accounting firms. Ponemon (1990) and Ponemon and Gabhart (1990) found that American CPAs' moral reasoning scores are negatively associated with their position levels. However, Bernardi (1994) show that senior audit managers are more likely to detect fraud.

8.5.2 Ethical ideologies on ethical intentions

This study found that Chinese auditors' ethical intentions are negatively associated with Relativism but are not associated with Idealism (refer Section 7.6.6). These results suggest that auditors who hold higher relativist positions are less likely demonstrate an intention to act ethically. These results are consistent with Hunt and Vitell's (1986) ethical decision-making theory. They proposed that an individual's ethical intentions are based on his/her teleological evaluation and ethical judgments. They posit that the individual must evaluate all probabilities and the desirability of the consequences of an action including the importance of stakeholders, before demonstrating an ethical intention. The effects of deontological evaluations on ethical intentions are identified through their effect on ethical judgments. In other words, the individual's deontological evaluations indirectly influence his/her ethical intentions through his/her ethical judgments. This study found that Chinese auditors who are likely to make an ethical judgment are more likely to have an ethical intention to act. This finding is consistent with Ajzen and Fishbein's (1980) theory of Reasoned Action. Their theory suggests that there is a positive relationship between an individual's judgment and his/her intention.

This study also found that there is no significant difference in ethical intentions between male and female auditors (refer Section 7.6.7). Results also show that there is no significant difference in Chinese auditors' ethical intentions across auditors' education and position. Prior studies do not appear to provide solid evidence that individuals' ethical intentions are associated with the levels for their education or position. However, this study found that experienced auditors are more like to demonstrate ethical intentions to act compared to less experienced auditors. Experienced auditors would represent most of managers and partners in this study. Thus it suggests that they are likely to be more aware of the Code of Professional Conduct and more concerned with their firms' future and professional reputations than those auditors with less experience.

Conclusion

This Chapter discussed the results of this study. An overview of findings of this study and the implications of these findings are provided in the next Chapter.

Chapter 9

Conclusion, Limitation, and Further Research

There are four objectives in this Chapter. First, it provides an overview of the study and the findings. Second, it discusses management implications. Third, it provides the limitations of the study and last it draws conclusions and provides directions for further research.

9.1 Overview of the Study

The aim of this study was examine the impact of Chinese auditors' values on their ethical decision-making in two ways, (1) ethical judgments and (2) ethical intentions. Chinese auditors' values are examined in three ways: (1) Chinese traditional cultural values, (2) *guanxi* orientations, and (3) attitudes towards money. Chinese auditors' work environment and personal factors were considered as contextual factors influencing decision making. Forsyth's (1980) model of ethical ideologies was used as the underlying theory associated with the determination of judgments and intentions.

Chapter 1 identifies background issues in relation to the research questions. It focuses on reviewing how China's economic reform drove changes in the Chinese economy, legalist and market infrastructures, regulatory framework, and accounting and auditing systems. Results of the review suggest that establishing a sound and credible information infrastructure is essential for China to continue to sustain its economic growth and become the world's economic superpower. Company auditors play an important role in achieving this objective so their ethical decision-making is

a crucial step in maintaining audit independence. China's Code of Professional Conduct focuses on general rules and contains less explicit information compared to those of developed countries and the International Federation of Accountants' (IFAC) Standard. The implication of less information in the Code is that auditors can rely more on their personal values and other factors in making an ethical decision. Research on ethical decision-making in a Chinese business context has been limited. Prior studies suggest that more research is needed to understand how national cultural issues influence auditors' ethical decision-making (Jones et al. 2003). Results of this study have provided that knowledge in the Chinese accounting/auditing context.

Chapters 2, 3 and 4 contain literature reviews. Chapter 2 reviews literature about cultures theories, notably Chinese traditional cultural values, interpersonal relationships, and attitudes towards money. Chinese 3 reviews literature about the Chinese auditing professional environment and Chapter 4 reviews literature about ethical ideologies and its effects on ethical decision-making. The literatures suggest that Chinese traditional cultural values have not changed but altered to fit the new model of the political state (Yuan & Shen 1998; Mathews 2000). However, Deng Xiaoping's proclamation that 'to get rich is glorious' introduced a new market ethic in which profit was viewed as the primary and overriding goal (Whitcomb et al. 1998). Chinese interpersonal relationships or *guanxi* orientations and their attitudes towards money have changed in meaning and application. Today's Chinese people focus on seeking maximum profit and rent-seeking *guanxi*, which involves back door deals and emphasizes power dependence relationships, is common practice in Chinese business environments (Seligman 1999; Steidlmeier 1999).

The literature also suggests that personal values and external environments are the basic factors which influence an individual's ethical decision-making. National cultures are the dominant factors in establishing an individual's personality (Hsu 1949) and in influencing his/her decision-making (McCrae et al. 1996; Hunt & Vitell 1986; Roxas & Stoneback 1997). Personal values also play a central role in the decision-making process (Yates & Lee 1996) and an individual's ethical judgments are a function of his/her moral philosophies (Hunt & Vitell 1986). Forsyth's (1980) ethical ideological theory suggests that individuals who exhibit different levels of Relativism and Idealism will make different moral judgments. Prior studies suggest that Idealism is positively associated with ethical judgments and that Relativism is either negatively associated with judgment or has no effect.

Chapter 5 develops the research model based on Forsyth's ethical ideologies theory and Hunt and Vitell's (1986; 1993) ethical decision-making model. The author posits that Chinese auditors' ethical ideologies influence their ethical judgments and intentions and that their ethical ideologies are influenced by traditional cultural values, *guanxi* orientations, attitudes towards money, work environment, and their personal factors. Chinese auditors' ethical ideologies are examined in two dimensions, Idealism and Relativism. Three major causal relationships are examined in this study and they are (1) the effects of Chinese traditional cultural values, *guanxi* orientations, and attitudes towards money on ethical ideologies; (2) the effects of contextual factors on ethical ideologies; and (3) the effects of ethical ideologies on ethical judgments and intentions.

Chapter 6 provides the research method for the study and identifies appropriate measures for each variable in the research model. A survey methodology was used in this study. Subjects for the study are Chinese CPAs with audit experience from accounting firms located in Shenzhen, Hangzhou, Beijing, and Kunming cities. Three hundred and twenty-five auditors responded to this study. Their beliefs about traditional cultural values are measured using the Chinese Cultural Values (CVS) scale in the Chinese Culture Connection's (1987) study. Chinese auditors' *guanxi* orientations are measured using Ang and Leong's (2000) nine items relating to favour-seeking *guanxi* scale. An additional three items, concerned specifically with rent-seeking *guanxi* orientations were constructed by the author. Chinese auditors' attitudes towards money are measured using Tang and Chiu's (2003) the *Love of Money Scale* (LMOS). Chinese auditors' ethical ideologies are measured using Forsyth's 20 item Ethics Position Questionnaire (EPQ). Chinese auditors' beliefs about their firms' ethical cultures are measured using Hunt et al.'s (1989) corporate ethical values scale. An auditing ethical case, adapted from the *American Accounting Association* (1992) (see Roxas & Stoneback 1997) and modified to suit Chinese subjects, was used to measure Chinese auditors' ethical judgments and intentions. The conceptual design connecting all associated variables applied in this study is provided in Figure 4 (Section 5.1.1)

Chapter 7 and 8 provide the results and discussion of the outcomes. The first objective of the study is to examine Chinese auditors' values. It was found that Chinese auditors' traditional cultural values in CVS_I (integration), CVS_{II} (Confucian Work dynamism future orientation), CVS_{III} (human-heartedness), and CVS_{IV} (moral discipline) dimensions are significantly higher than the scale

mid-point but their traditional cultural values in the CVS_{IIP} (Confucian Work dynamism past orientation) are significantly lower than the scale mid-point value. CVS_{IIF} (Confucian Work dynamism future orientation) component has a highest mean score and CVS_{IV} (moral discipline) has a lowest mean score. *Guanxi* orientations and attitudes towards money are significantly higher than the scale mid-point value. Although they were found to have lower mean scores than subjects tested in Hong Kong and Singapore. Their attitudes towards money were also found to be higher than Chinese students tested in other studies. Older and experienced auditors hold stronger beliefs in their traditional cultural values than young auditors. Older auditors are also less likely to use *guanxi* and are less likely want to be rich. Auditors who have attained higher levels of education are less likely to respect their traditional cultural values compared to those who hold lower qualifications. Male auditors identify more with the notion of wanting to be rich and are more like to use *guanxi* than female auditors.

The second objective is to examine the effects of Chinese auditors' values on their ethical ideologies. This study concludes that Chinese auditors' ethical positions are best classified as Situationist (i.e., significant numbers scored high in both Idealism and Relativism) (Forsyth 1980). According to Forsyth (1980), Situationists tend to reject universal moral rules but advocate an individualistic analysis of each act or situation. Their idealist positions were found to be influenced by their cultural values associated with Confucian Work dynamism, favour-seeking *guanxi*, and attitudes towards money in the *importance* dimension. Their relativist positions were found to be influenced by cultural values associated with Confucian work dynamism,

favour-seeking and rent-seeking *guanxi* orientations, and attitudes towards money in *success* dimension.

The third objective is to examine the effects of auditing firms' ethical cultures and Chinese auditors' personal factors on their ethical ideologies. This study concludes that Chinese auditors' beliefs about their firms' punishment systems are positively associated with Idealism but not Relativism and their beliefs about their managers' unethical behaviours are positively associated with Relativism but not Idealism. Male auditors are more relativistic than female auditors and old auditors more relativistic than their younger counterparts. Auditors who hold higher positions in their firms are also more likely to be relativists than auditors who hold lower positions.

The final objective is to examine the effects of Chinese auditors' ethical ideologies on their ethical judgments and intentions. This study found that Chinese auditors' idealist positions have a positive impact on ethical judgments but have no influence on their ethical intentions and that their relativist positions have a negative impact on their ethical judgments and intentions. It was also found that young auditors rate lower in ethical judgment making compared to older auditors. Experienced auditors are more like to demonstrate ethical intentions to act than less experience auditors.

The findings of this study are summarised in Figures 24 and 25.

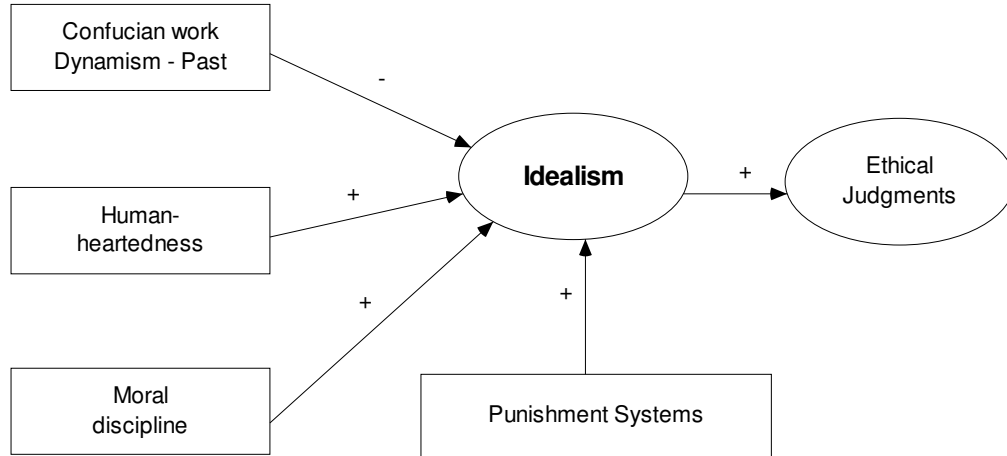


Figure 24: Significant factors influencing Idealism

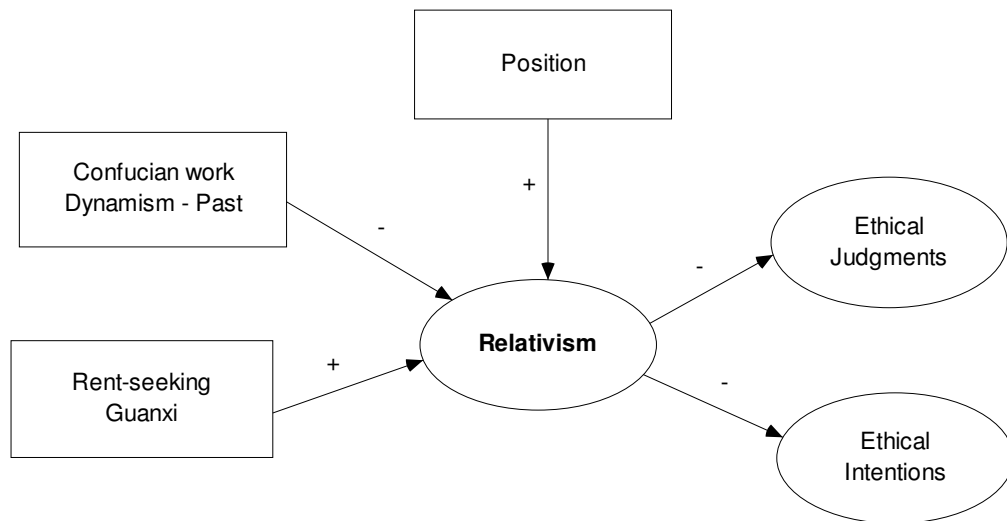


Figure 25: Significant factors influencing Relativism

9.2 Management implications

This study contributes to our understanding about Chinese auditors' values and their ethical ideologies and the effects of these on their ethical judgments and intentions. It is apparent that Idealism plays positive role in Chinese auditors' ethical judgments. Hence, it could be asserted that the existence of good workplace standards and codes

of practice encourage those auditors adopting high idealist positions. Thus it is important for accounting firms to have an ethics standard to guide their auditors in performing their professional services and apply idealist preferences when making decisions. Auditors with stronger idealist beliefs are more likely to comply with the Code of Professional Conduct.

Chinese auditors adopting high relativist positions appear to be more inclined to be less concerned with making ethical judgments and demonstrating appropriate intentions. Auditors with stronger rent-seeking *guanxi* orientations and who work in environments that support or encourage unethical behaviours may be encouraged to adopt a relativist position on many issues. In addition, this study showed that auditors who hold higher positions in their firms are more likely to be relativists. These factors play important roles in negatively influencing auditors' ethical judgments and intentions, culminating in actions that may not be in the best interest of other stakeholders. Chinese auditing firms need to be aware of these negative impacts by monitoring these issues carefully to ensure their auditors maintain audit independence and their integrity. The central government and the professional bodies like Chinese Institute of Certified Public Accountants (CICPA) should oversee the process of good governance by implementing codes of practice and appropriate professional development for accountants.

As Situationists (high idealism and high relativism), many Chinese auditors' tend to reject universal moral rules but they advocate individualistic analysis of each act (in each situation) when they make judgments, which may not always be ethical or appropriate.

9.3 Limitations of this Study

The results of this study should consider the following limitations. First, Chinese auditors' ethical ideologies were examined using Idealism and Relativism as the two dimensions in this study. Forsyth (1980) suggested that the concepts of Idealism and Relativism are not opposites and there are four possible ethical orientations (1) situationists, (2) absolutists, (3) subjectivists, and (4) exceptionists. Thus scope of this study was somewhat limited.

Second, the results of this study should be considered in the light of the inherent limitations associated with questionnaire research. There is a potential significant non-response bias because half of the survey instruments were not returned. Half of the responses received (612) contained 287 incomplete and inconsistent survey instruments. These survey instruments were excluded from the study. Thus a potential non-response bias may exist.

Third, a limit to generalizability may exist because the subjects for this study were only drawn from four cities and a small percentage of respondents (11%) are from northern China. In addition, respondents are all from highly industrialised regions. Thus generalisability may be limited. In addition, many people working in accounting firms are not members of the CICPA, from which the sample was drawn. Moreover, this study did not conduct a path analysis to test the major constructs to confirm the strong possible flow on effect of culture factors on judgments and intentions via ethical ideologies.

Fourth, due to a lack of raw data from prior studies, the homogeneity of variance between the groups (subjects from the current study and other studies) are assumed to be unequal. Thus any conclusions drawn from results about Chinese auditors' values must be considered tentative.

9.4 Suggestions of further research and conclusion

The results of this study raise questions for further research. First, examining Chinese auditors' ethical positions in four orientations suggested by Forsyth is one direction. It can provide a better understanding about Chinese auditors' ethical positions and filling the gap that this study was limited.

Second a confirmatory analysis with an independent sample could be used to re-test the *guanxi* scale with two dimensions developed in this study. One of the significant contributions of this study is that it contributed to the construction of a meaningful measure for *guanxi* scale which includes favour-seeking *guanxi* and specifically for the first time rent-seeking *guanxi* two dimensions. The rent-seeking *guanxi* scale was developed to measure the extent to which business relationships involve back door deals and power dependence. These kinds of business relationships prevail in today's Chinese businesses but they have been examined in the prior studies. Thus it is valuable to re-test the scale for its validation in the further research.

Third, it could be worthwhile re-examining the relationship between Chinese auditors' attitudes towards money and their ethical ideologies because Chinese auditors' love of money did not make any contribution to the research model in this study.

Fourth, a confirmatory analysis with an independent sample also could be used to re-test the model developed in this study. Fifth, further research can identify other factors which influence auditors' ethical judgments and intentions, for example Chinese auditors' moral reasoning and their spiritual beliefs.

Lukka and Kasanen (1995) identified the components of generalisable research as...‘the preconditions for generalizability...[are] theoretical knowledge of the subject area, prior empirical results and their interpretations provided by the study in question’ (p. 84). This study has complied with the above. The theoretical knowledge of the area has been carefully explained. The background empirical research is supported, and reasonable care is taken to ensure that adequate tests are performed. However, research examining auditors' ethical decision-making must be considered to be a work-in-progress. Notwithstanding that this study provided some evidence that Chinese auditors' values impact on their ethical ideologies and their ethical judgments and intentions, new variables and items are needed. In addition an in depth statistical methods (i.e. confirmatory factor analysis) and interview protocols are required. Thus there is much to be done.

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APPENDIX A

Contract for Translation of Survey Instrument (1)

Contract Between

School of Accounting, Curtin University of Technology

and

Lu Liang

This contract is for services in the form of translation of documents from English into Chinese.

These documents include twelve (12) pages of Surveys, some parts of which are repetitive, which means they need only to be done once.

It is hereby agreed that the Accounting School (re Ying Han Fan) will pay the following sum \$350.00.

Signed:

Signed:

Date:

Date:

APPENDIX B

Contract for Translation of Survey Instrument (2)

Contract Between

School of Accounting, Curtin University of Technology

and

Ying Xuan Song

This contract is for services in the form of translation of documents from Chinese into English.

These documents include six (6) pages of Surveys, some parts of which are repetitive, which means they need only to be done once.

It is hereby agreed that the Accounting School (re Ying Han Fan) will pay the following sum \$100.00.

Signed:

Signed:

Pat Addison

Ying Xuan Song

Date:

Date:

APPENDIX C

Cover Letter for Survey

A Study of the Impact of Chinese Auditors' Values on their Ethical Decision-Making

Dear Respondent,

I am a doctoral candidate in the School of Accounting at Curtin University of Technology in Western Australia. My supervisor is Professor Pat Addison and my study is about the impact of Chinese auditors' values on their ethical decision-making.

The aim of this study is to build a new business decision-making model to be known as the Chinese Auditors' Decision Making Model by investigating Chinese auditors' ethical decision-making in China. I am surveying Chinese auditors to identify their cultural values, personal ethical ideologies, interpersonal relationships (*guanxi*), the love of money, perceptions of the code of professional conduct and their firm's ethical culture.

There are no right or wrong answers to the questions in the questionnaire. I would like your honest opinions. All the answers will remain confidential and anonymous. Results will be analysed in general, without reference to specific individuals.

Your participation is voluntary and you can withdraw from this study at any time without negative consequences.

Your participation in this study is greatly appreciated, so I thank you for the time you will spend completing the questionnaire. If you have any queries, please feel free to contact me (Ph: +618 9399 8343, email: YingHan.Fan@cbs.curtin.edu.au) or Professor Pat Addison (Ph: +618 9266 7567, email: Pat.Addison@cbs.curtin.edu.au).

The project has been approved by the Curtin University Human Research Ethics Committee. Contact details for the Secretary of the Human Research Ethics Committee are: Ph: +618 9266 2784; email: L.Teasdale@curtin.edu.au.

Please return completed questionnaires to the one of the following addresses:

- 1. Shenzhen Institute of Certified Public Accountants
12DEF, 6008 Shennan Road, Shenzhen, Guandong 518009**
- 2. Zhejian Institute of Certified Public Accountants
423 Sport Road, Hangzhou, Zhejian 310041**
- 3. Yunnan Institute of Certified Public Accountants
26 Nanping Street, Kunming, Yunnan 650021**

APPENDIX D

Survey Instrument for the Main Study

Survey Instrument 1: Background Information

Please place a cross [x] in the appropriate box:

1. What is your gender

Male []

Female []

2. Please indicate your age range

20-30 []

31-40 []

41-50 []

50 Above []

3. Please indicate your educational level

Diploma []

Bachelor []

Master []

PhD []

Other []

4. Please indicate your current work position

Auditor []

Senior auditor []

Project manager []

Department manager []

Partner []

Senior partner []

5. Please indicate the length of your audit work experience

Within 0 – 5 years []

Within 6 – 10 years []

Within 11 – 15 years []

Within 16 – 20 years []

Over 20 years []

Survey Instrument 2: Chinese Cultural Values

Please review the following concepts and indicate how important each of them is to you by circling the ***one answer*** that best describes your view of ***each concept***.

	Not Important								Extremely important
	1	2	3	4	5	6	7	8	9
1. Filial piety									
2. Tolerance of others									
3. Harmony with others									
4. Reciprocation									
5. Kindness									
6. Solidarity with others									
7. Moderation									
8. Ordering relationships									
9. Sense of righteousness									
10. Non-competitiveness									
11. Personal steadiness									
12. Patriotism									
13. Keeping oneself disintegrated and pure									
14. Thrift									
15. Persistence									
16. Patience									
17. Adaptability									
18. Prudence									
19. Trustworthiness									
20. Having a sense of shame									
21. Courtesy									
22. Contentedness									
23. Being conservative									
24. Protecting your face									
25. A close, intimate friend									
26. Chastity in women									
27. Having few desires									
28. Respect for tradition									

Survey Instrument 3: Chinese Interpersonal Relationships – *Guanxi*

Below are common Chinese values of interpersonal (*Guanxi*) relationships. Please circle the ***one answer*** that best describes your view of ***each question***.

	Strongly disagree									Strongly agree
1. In business, it is important to maintain a good network of relationships	1	2	3	4	5	6	7	8	9	
2. Doing business involves knowing the right people	1	2	3	4	5	6	7	8	9	
3. Developing the right contacts helps in the smooth running of a business	1	2	3	4	5	6	7	8	9	
4. One must always build and maintain social relationships with others in case their services are needed in the future	1	2	3	4	5	6	7	8	9	
5. Being in the 'inside' circle helps in obtaining preferential treatment	1	2	3	4	5	6	7	8	9	
6. Returning favor for favor is part of doing business	1	2	3	4	5	6	7	8	9	
7. Gift giving is an important aspect in business success	1	2	3	4	5	6	7	8	9	
8. Maintaining good relationships is the best way to enhance business	1	2	3	4	5	6	7	8	9	
9. Frequent cooperation reduces problems in business relationships	1	2	3	4	5	6	7	8	9	
10. In business, back-door deals are alright as long as everyone prospers	1	2	3	4	5	6	7	8	9	
11. Power exchange relationships are normal in Chinese business	1	2	3	4	5	6	7	8	9	
12. Using bureaucratic privilege is common practice in business	1	2	3	4	5	6	7	8	9	

Survey Instrument 4: Ethics Position Questionnaires

The following statements represent commonly held opinions but there are no right or wrong answers. Please circle the ***one answer*** which describes your view of ***each question***.

	Strongly disagree								Strongly agree
	1	2	3	4	5	6	7	8	9
1. One should make certain that his/her actions never intentionally harm another even to a small degree	1	2	3	4	5	6	7	8	9
2. Risks to another should never be tolerated, irrespective of how small the risks might be	1	2	3	4	5	6	7	8	9
3. Potential harm to others is always wrong, irrespective of the benefits to be gained	1	2	3	4	5	6	7	8	9
4. One should never psychologically or physically harm another person	1	2	3	4	5	6	7	8	9
5. One should not perform an action which might in any way threaten the dignity and welfare of another individual	1	2	3	4	5	6	7	8	9
6. If an action could harm an innocent other, then it should not be done	1	2	3	4	5	6	7	8	9
7. Deciding whether or not to perform an act by balancing the positive consequences of the act against the negative consequences of the act is immoral	1	2	3	4	5	6	7	8	9
8. The dignity and welfare of people should be the most important concern in any society	1	2	3	4	5	6	7	8	9
9. It is never necessary to sacrifice the welfare of others	1	2	3	4	5	6	7	8	9
10. Moral actions are those which closely match the ideal of the most 'perfect' action	1	2	3	4	5	6	7	8	9
11. There are no ethical principles that are so important that they should be part of any code of ethics	1	2	3	4	5	6	7	8	9
12. What is ethical varies from one situation and society to another	1	2	3	4	5	6	7	8	9
13. Moral standards should be seen as being individualistic; what one person considers to									

be moral may be judged to be immoral by another person	1	2	3	4	5	6	7	8	9
14. Different types of moralities cannot be compared to 'rightness'	1	2	3	4	5	6	7	8	9
15. Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual	1	2	3	4	5	6	7	8	9
16. Moral standards are personal rules which indicate how a person should behave, and are not to be applied in judging others	1	2	3	4	5	6	7	8	9
17. Ethical considerations in interpersonal relations are so complex that individuals should be allowed to form their own codes	1	2	3	4	5	6	7	8	9
18. Rigidly codifying an ethical position that prevents certain types of actions could stand in the way of better human relations and adjustment	1	2	3	4	5	6	7	8	9
19. No rule about lying can be formulated; whether a lie is permissible or not permissible depends upon the situation	1	2	3	4	5	6	7	8	9
20. Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action	1	2	3	4	5	6	7	8	9

Survey Instrument 5: Auditing Firms' Ethical Culture

The following statements are concerned with auditing firms' managers' ethical considerations and behaviours. Please circle the ***one answer*** that best describes your view of ***each question***.

	Strongly disagree						Strongly agree
	1	2	3	4	5	6	7
1. Managers in my firm often engage in behaviours that I consider to be unethical	1	2	3	4	5	6	7
2. In order to succeed in my firm, it is often necessary to compromise one's ethics	1	2	3	4	5	6	7
3. Top management in my firm has let it be known that unethical behaviours will not be tolerated	1	2	3	4	5	6	7
4. If a manager in my firm is discovered to have engaged in unethical behaviour that results primarily in personal gain (rather than firm gain), he or she will be promptly reprimanded	1	2	3	4	5	6	7
5. If a manager in my firm is discovered to have engaged in unethical behaviour that results in firm gain (rather than personal gain), he or she will be promptly reprimanded	1	2	3	4	5	6	7

Survey Instrument 6: The Love of Money

Below are common views about money. Please circle the ***one answer*** that best describes your view of ***each question***.

1. Money is important	Strongly disagree 1	2	3	4	5	6	Strongly agree 7
2. Money is valuable	1	2	3	4	5	6	7
3. Money is good	1	2	3	4	5	6	7
4. Money is an important factor in the lives of all of us	1	2	3	4	5	6	7
5. Money is attractive	1	2	3	4	5	6	7
6. Money represents one's achievement	1	2	3	4	5	6	7
7. Money is a symbol of my success	1	2	3	4	5	6	7
8. Money reflects my accomplishments	1	2	3	4	5	6	7
9. Money is how we compare each other	1	2	3	4	5	6	7
10. I am motivated to work hard for money	1	2	3	4	5	6	7
11. Money reinforces me to work harder	1	2	3	4	5	6	7
12. I am highly motivated by money	1	2	3	4	5	6	7
13. Money is a motivator	1	2	3	4	5	6	7
14. Having a lot of money (being rich) is good	1	2	3	4	5	6	7
15. It would be nice to be rich	1	2	3	4	5	6	7
16. I want to be rich	1	2	3	4	5	6	7
17. My life will be more enjoyable, if I am rich and have more money	1	2	3	4	5	6	7

Survey Instrument 7: Ethical Decision-making Case

XYZ is a five-year old private company. During the five years, the business has grown substantially and has generated a comfortable living for its owner and CEO, Mr. Li. In order to grow further, Mr. Li is considering expanding by applying for a loan from the Bank of China to increase capital.

The bank requires an independent auditor's review as part of the loan approval process. The company has failed, as many closely held businesses do, to keep careful records. Until now XYZ has not had an outside accountant.

After completing the current year's review, CPA Wong tells Mr. Li that the company has incurred a loss of \$125,000. Mr. Li comments to him, 'You know, if the Bank of China sees these statements, we'll never get the line of credit.' CPA Wong assures him that the company still has significant net worth despite a bad year. So he doesn't think that the Bank of China will reject the loan application over the one-year loss. Mr. Li is not convinced; the bank manager made it clear that he would take a close look at current performance prior to extending the line of credit. If the credit isn't forthcoming, XYZ will have a hard time paying suppliers on time. If materials or parts are held up, delivery deadlines will not be met and the income situation will deteriorate further. Mr. Li asks, "CPA Wong, how can we make this look better? You accountants know various ways of interpreting and reporting data. Certainly you know how to change the numbers to present a better picture. Can't the undervalued assets be restated? What about all that goodwill we have generated by quality products and prompt service? That must be worth something. What about receivables? Maybe all those accounts that you wrote off aren't all that bad; perhaps we could carry some of them for a while longer. Tell me, what can we do now?"

Mr. Li's attitude makes CPA Wong uneasy. At the same time, XYZ is in an industry where CPA Wong's accounting firm has been trying to gain a foothold for some time. The XYZ account could mean as much as 25% of his firm's income in terms of opportunities for service alone. In today's competitive market, every prospective client is valuable.

Required: Using your own experience as a basis, respond to the following questions as if you are in CPA Wong's situation. Please circle the *one* which best answer describes your view of *each question*.

1. I believe that the bank and the creditors may be deceived if CPA Wong makes the changes suggested by Mr. Li.

1	2	3	4	5	6	7
Strongly						Strongly
Disagree						Agree

2. I believe that if CPA Wong makes the changes suggested by Mr. Li his integrity will be compromised and Mr. Li may make more questionable demands later.

1	2	3	4	5	6	7
Strongly						Strongly
Disagree						Agree

3. CPA Wong made the changes suggested by Mr. Li because CPA Wong wants his future business be assured. I believe that CPA Wong's action is:

1	2	3	4	5	6	7
Very						Very
Unethical						Ethical

4. CPA Wong told Mr. Li that he cannot make the changes. I believe that CPA Wong's action is:

1	2	3	4	5	6	7
Very						Very
Unethical						Ethical

5. CPA Wong told Mr. Li about his concerns and reached a compromise. I believe that CPA Wong's action is:

1	2	3	4	5	6	7
Very						Very
Unethical						Ethical

6. If you are CPA Wong, would you make the changes suggested by Mr. Li?

1	2	3	4	5	6	7
Definitely						Definitely
would not						would

7. If you are CPA Wong, would you tell Mr. Li that you cannot make the changes?

1	2	3	4	5	6	7
Definitely						Definitely
would not						would

8. If you are CPA Wong, would you tell Mr. Li about your concerns and reach a compromise?

1	2	3	4	5	6	7
Definitely						Definitely
would not						would

(Thank you for your participation. It is much appreciated.)

APPENDIX E

Cover Letter for Survey (Chinese Version)

一份关于中国审计人员职业道德决策的调查

致答卷者,

我是西澳大利亚州科廷大学 (Curtin University) 会计学院的一名博士研究生。我的导师是 Pat Addison 教授。我的研究方向是中国审计人员的价值观念对职业道德决策的影响。

该项研究的目的在于通过对中国审计人员职业道德决策的调查,来建立一种新的职业道德决策模型,统称为“中国审计人员职业道德决策模型”。这份问卷是调查中国审计人员的文化价值观念、对中国人人际关系的看法,个人道德价值观念,金钱态度观,以及对审计行业的职业道德规范守则和你自己会计师事务所的道德环境的看法。

调查表中的问题没有正确或错误之答案。我所希望的是获取你诚实的观点。所有的答卷均对外保密,其结果也将是总体分析,不会涉及具体个人。你的参与是自愿的。你可以不用参与这次调查,但不希望你有什么负面的顾虑由于你的不参与。

感谢您参加这次问卷调查和花费的时间。如果你有什么疑问可以联系我本人,电话: 00618 93998343, 电子邮件信箱: YingHan.Fan@cbs.curtin.edu.au。你还可以和我的导师 Pat Addison 教授取得联系,电话: 00618 92667567, 电子邮件信箱: Pat.Addison@cbs.curtin.edu.au。

这份研究项目已取得西澳科廷大学人类研究道德委员会的批准。人类研究道德委员会秘书处的电话: 00618 92662784; 电子邮件信箱: L.Teasdale@curtin.edu.au。

最后麻烦你把答完的问卷寄到以下其中的一个协会:

1. 深圳市注册会计师协会
深圳市深南大道 6008 号, 12DEF 邮编: 518009
2. 浙江省注册会计师协会
浙江省杭州市体育场路 423 号 邮编: 310041
3. 云南省注册会计师协会
云南省昆明市南屏街 26 号 邮编: 650021

樊影菡 (博士研究生)
Curtin University

APPENDIX F

Survey Instrument for the Main Study (Chinese Version)

调查表 1：背景情况

请在相应的方框中打[x 或√]：

1. 您的性别

男 []

女 []

2. 您的年龄

20 - 30 []

31 - 40 []

41 - 50 []

50 以上 []

3. 您的学历

大专 []

本科 []

硕士 []

博士 []

其它 []

4. 您目前的职位

审计员 []

资深审计员 []

项目经理 []

部门经理 []

合伙人 []

高级合伙人 []

5. 您做审计工作的经历年限

0 - 5 年 []

6 - 10 年 []

11 - 15 年 []

16 - 20 年 []

20 年以上 []

调查表 2：中国传统文化观

请表明以下**每一种**观念对于您的重要程度并在其数字上划圈或打勾。

	最不重要									最重要
	1	2	3	4	5	6	7	8	9	
1. 孝 顺	1	2	3	4	5	6	7	8	9	
2. 容忍他人	1	2	3	4	5	6	7	8	9	
3. 为人随和	1	2	3	4	5	6	7	8	9	
4. 礼尚往来	1	2	3	4	5	6	7	8	9	
5. 仁爱	1	2	3	4	5	6	7	8	9	
6. 与人团结	1	2	3	4	5	6	7	8	9	
7. 谦虚	1	2	3	4	5	6	7	8	9	
8. 尊卑有序	1	2	3	4	5	6	7	8	9	
9. 正义感	1	2	3	4	5	6	7	8	9	
10. 不重竞争	1	2	3	4	5	6	7	8	9	
11. 个人稳重	1	2	3	4	5	6	7	8	9	
12. 爱国	1	2	3	4	5	6	7	8	9	
13. 廉洁	1	2	3	4	5	6	7	8	9	
14. 节俭	1	2	3	4	5	6	7	8	9	
15. 毅力	1	2	3	4	5	6	7	8	9	
16. 耐心	1	2	3	4	5	6	7	8	9	
17. 适应环境	1	2	3	4	5	6	7	8	9	
18. 谨慎	1	2	3	4	5	6	7	8	9	
19. 守信用	1	2	3	4	5	6	7	8	9	
20. 知耻	1	2	3	4	5	6	7	8	9	
21. 有礼貌	1	2	3	4	5	6	7	8	9	
22. 知足常乐	1	2	3	4	5	6	7	8	9	
23. 保守	1	2	3	4	5	6	7	8	9	
24. 要面子	1	2	3	4	5	6	7	8	9	
25. 知己之交	1	2	3	4	5	6	7	8	9	
26. 贞节	1	2	3	4	5	6	7	8	9	
27. 寡欲	1	2	3	4	5	6	7	8	9	
28. 尊重传统	1	2	3	4	5	6	7	8	9	

调查表 3：个人道德价值观的评价

下列陈述代表了人们普遍持有的观念。请表明您对以下**每一种**观念的同意程度并在其数字上划圈或打勾。

	最不同意									最同意
1. 一个人应该保证他/她的行为决不应故意伤害他人，哪怕是很小程度。	1	2	3	4	5	6	7	8	9	
2. 让他人承担风险的行为决不能容忍，无论该风险会多么微小。	1	2	3	4	5	6	7	8	9	
3. 对他人有潜在伤害的行为总是错误的，无论它是否有利可图。	1	2	3	4	5	6	7	8	9	
4. 一个人决不能从心理上或身体上伤害他人。	1	2	3	4	5	6	7	8	9	
5. 一个人不应该从事一项可能威胁到他人尊严和幸福的行为。	1	2	3	4	5	6	7	8	9	
6. 若一个行为可能会伤害到一个无辜的他人时，这种行为就不应该发生。	1	2	3	4	5	6	7	8	9	
7. 通过平衡某个行为的正反两面后果来决定是否实施一个行为是不道德的。	1	2	3	4	5	6	7	8	9	
8. 一个人的尊严和幸福在任何社会里都是最为重要的。	1	2	3	4	5	6	7	8	9	
9. 决不应该牺牲他人的幸福。	1	2	3	4	5	6	7	8	9	
10. 道德行为是与“完美”行为紧密匹配的行为。	1	2	3	4	5	6	7	8	9	
11. 没有什么道德法则如此重要到应该成为法律的一部分。	1	2	3	4	5	6	7	8	9	
12. 什么是合乎道德规范的行为会因环境和社会的不同而不同。	1	2	3	4	5	6	7	8	9	
13. 道德标准应因个人判断而异。一个人认为是道德的行为可能会被另外一个人视为不道德的。	1	2	3	4	5	6	7	8	9	
14. 不同类别的道德品德不能相互比较来确定谁是正确的。	1	2	3	4	5	6	7	8	9	
15. 对于我们大家来说道德问题永远无法解决，因为什么是道德和非道德取决于个人的判断和观点。	1	2	3	4	5	6	7	8	9	
16. 道德标准显示的是一个人怎样行为，而不适用于评判他人。	1	2	3	4	5	6	7	8	9	
17. 道德行为的考虑在人际关系中如此复杂，因此应该允许个人形成他们自己的行为规范准则。	1	2	3	4	5	6	7	8	9	
18. 严格规范一个道德立场来约束某一类别的行为可										

能会妨碍建立和调整更好的人际关系。	1	2	3	4	5	6	7	8	9
19. 对于撒谎不能制定任何规则。允不允许撒谎要视情况而定。	1	2	3	4	5	6	7	8	9
20. 判断一个谎言是道德的还是非道德的要看实施行为的环境而定。	1	2	3	4	5	6	7	8	9

调查表 4：对中国人人际关系的看法

下面是中国人对待人际关系的普遍观点。请表明您对以下**每一种**观点的同意程度并在其数字上划圈或打勾。

	最不同意								最同意
1. 做生意时, 保持良好的关系网很重要。	1	2	3	4	5	6	7	8	9
2. 做生意要认识关键人物。	1	2	3	4	5	6	7	8	9
3. 培养良好的关系可帮助生意平稳运行。	1	2	3	4	5	6	7	8	9
4. 一个人应该时常建立并保持同他人的社会关系, 以备日后所需。	1	2	3	4	5	6	7	8	9
5. 属于“内部圈”里的人, 有助于获得优待。	1	2	3	4	5	6	7	8	9
6. 礼尚往来是经商的一部分。	1	2	3	4	5	6	7	8	9
7. 送礼是经商成功的重要方面。	1	2	3	4	5	6	7	8	9
8. 维持好的关系是扩大生意的最佳途径。	1	2	3	4	5	6	7	8	9
9. 保持与客户的经常接触能减少生意关系方面的问题。	1	2	3	4	5	6	7	8	9
10. 生意场上私下交易是可以的, 只要每个人受益。	1	2	3	4	5	6	7	8	9
11. 在中国的生意关系中权力交换关系很正常。	1	2	3	4	5	6	7	8	9
12. 使用官僚特权是经商的普遍做法。	1	2	3	4	5	6	7	8	9

调查表 5： 对待金钱的态度

下面是人们对待金钱的普遍看法。请表明您对以下**每一个**看法的同意程度并在其数字上划圈或打勾。

	最不同意						最同意
1. 金钱是非常重要的	1	2	3	4	5	6	7
2. 金钱是非常有价值的	1	2	3	4	5	6	7
3. 金钱是好的	1	2	3	4	5	6	7
4. 钱对于我们所有人都是至关重要的	1	2	3	4	5	6	7
5. 金钱是非常有吸引力的	1	2	3	4	5	6	7
6. 金钱代表一个人的成就	1	2	3	4	5	6	7
7. 金钱是成功的象征	1	2	3	4	5	6	7
8. 金钱反影了我的能力	1	2	3	4	5	6	7
9. 有钱可以相互比较	1	2	3	4	5	6	7
10. 我努力工作是为了赚钱	1	2	3	4	5	6	7
11. 金钱促使我拚命地工作	1	2	3	4	5	6	7
12. 我是一个被金钱推动的人	1	2	3	4	5	6	7
13. 金钱是一种动机	1	2	3	4	5	6	7
14. 有很多钱很好	1	2	3	4	5	6	7
15. 能够富有非常的好	1	2	3	4	5	6	7
16. 我想要富有	1	2	3	4	5	6	7
17. 如果我富有, 我的生活会很享受	1	2	3	4	5	6	7

调查表 6：对会计事务所道德规范的看法

下列陈述涉及会计师事务所经理的伦理道德行为。请表明您对以下**每一个**陈述的同意程度并在其数字上划圈或打勾。

	最不同意						最同意
1. 我会计师事务所的经理们有时会有一些我认为是不符合职业道德的行为。	1	2	3	4	5	6	7
2. 要在我会计师事务所取得成功，有时妥协个人的道德规范是必要的。	1	2	3	4	5	6	7
3. 众所周知，在我会计师事务所里，管理层是不会容忍违反职业道德规范的行为的。	1	2	3	4	5	6	7
4. 我会计师事务所的经理若从事违反职业道德规范的行为是为自己获利，而不是为了公司获利，他或她将会受到惩罚。	1	2	3	4	5	6	7
5. 我会计师事务所的经理若从事违反职业道德规范的行为是为公司获利，而不是为自己获利，他或她将会受到惩罚。	1	2	3	4	5	6	7

调查表 7：决策案例分析

XYZ公司是一家私人公司。在为期5年的经营中，该公司有稳固的发展，并为它的业主兼执行总裁李先生带来丰厚的回报和舒适的生活。为了使公司进一步发展，李总裁表示他打算找中国银行寻求营运资本，为公司扩展业务注入动力。

如同很多公司一样，该公司没有保存良好的帐目记录，其帐目时至今日也未经注册会计师审计过。银行要求把会计师的审计报告作为批准贷款申请的一部分。注册会计师王先生完成了对XYZ公司年终财务报告和纳税申报的审计。王注册会计师告诉李总裁公司发生了125,000元的经营亏损。李总裁对王注册会计师说：“你知道，如果中国银行看到了这份报告，我们永远也得不到贷款”。王注册会计师向李总裁保证，尽管公司经历了艰难的一年，但还有大笔净资产。他不认为中国银行会因为公司一年的亏损就拒绝贷款。李总裁还是心存疑虑。银行经理明确表示他将仔细审阅公司的目前业绩，再决定提供贷款。如果银行贷款下不来，XYZ公司将面临极大困难及时支付货款；如果原材料不能及时得到补货，产品交货最后期限就无法满足，那么收益情况就会恶化。李总裁问：“王注册会计师，我们怎样才能使这一局面看上去好一点？你们会计师都知道有各种各样的办法去解释和报告财务报表数据。当然你也知道怎样去更改数字来让财务报表好看一些。能不能将低估的资产重新评估一下？还有我们的高质量产品和快捷的服务所带来的商誉能否入帐？它们总能增加一些资

产的价值。还有被你记入坏帐的应收帐款，未必不能收回。或许我们能再坚持一段时间，这些应收帐款就能收回。”

李总裁的态度让王注册会计师深感不安。与此同时，XYZ公司正是王注册会计师的事务所一直想拥有的一个客户。如能为XYZ公司提供服务，对其收费就占王注册会计师事务所业务收入的25%。在目前市场竞争激烈的情形下，每一个潜在客户都是珍贵的。

要求：以你个人的经历为基础，假如您是王注册会计师，您会如何反应？请您在以下的每个问题中选择最能描述您观点的一个答案，并在其数字上划圈或打勾。

1. 我认为如果王注册会计师按照李总裁的提议去更改帐目，银行和债权人就会受到欺骗。

1	2	3	4	5	6	7
最不同意						最同意

2. 我认为如果王注册会计师按照李总裁的提议去更改帐目，他的诚信就会大打折扣，而且李总裁回头还会提更多的要求。

1	2	3	4	5	6	7
最不同意						最同意

3. 王注册会计师按照李总裁的提议更改了帐目，因为王注册会计师想要保障他未来的生意。我认为王注册会计师的行为是:

1	2	3	4	5	6	7
最不道德的						最道德的

4. 王注册会计师应该告诉李总裁他不能更改帐目。我认为王注册会计师的行为是:

1	2	3	4	5	6	7
最不道德的						最道德的

5. 王注册会计师应告诉李总裁他对此事的担心，并达成妥协。我认为王注册会计师的行为是:

1	2	3	4	5	6	7
最不道德的						最道德的

6. 如果你是王注册会计师，你会按照李总裁的提议更改帐目。

1	2	3	4	5	6	7
一定不会						一定会

7. 如果你是王注册会计师，你会告诉李总裁你不能更改帐目。

1	2	3	4	5	6	7
一定不会						一定会

8. 如果你是王注册会计师，你会告诉李总裁你对此事的担心，并达成妥协。

1	2	3	4	5	6	7
一定不会						一定会

(再次感谢您的合作)